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INTERNAL TRANSFER PRICES AS A TOOL FOR FINANCIAL MANAGEMENT OF A COMPANY

Transfer prices are used by manufacturing companies to evaluate the performance of profit centers and investment centers.

Transfer prices are used by companies in transactions between its divisions, branches, controlled firms. Setting transfer prices helps:

- regulate supply and demand for services of divisions;
- create a mechanism to improve the efficiency of the departments;
- calculate the performance of a unit or type of business to make a decision on its further development, restructuring or spin-off;
- create a tool for motivating department heads.

Let us highlight four main stages in the process of introducing the transfer pricing system into the company's financial management practice.

Stage 1. Identification of participants in the domestic market. Determine which divisions will be priced using transfer prices. It is advisable to introduce such a mechanism for rela-

tively independent departments or branches, companies in the group, divisions and projects that are planned to be separated into a separate business in the future.

Stage 2. Price calculation. The procedure for calculating prices for each service is established, as well as the algorithm according to which prices will be applied and changed.

Stage 3. Modeling. At this stage, it is necessary to determine the correctness of the selected base for calculating transfer prices.

Stage 4. Linking the motivation system to the income of the unit. On the basis of modeling and plans for the next year, the procedure for calculating bonuses to heads of departments is established.

When deciding on the introduction of transfer prices, it should be remembered that this method of management requires compliance with a number of requirements. These requirements are quite simple, however, to implement them sometimes it is necessary to revise the company's management mechanisms.

Availability of management accounting. In order to correctly determine the basis for setting transfer prices, that is, the list of services that will be paid for and the method for calculating their cost, the company needs a developed management accounting system. So, it should be possible to calculate the dynamics of non-financial indicators.

High level of qualifications of managers. In order to competently use the freedom of action provided, to correctly determine the directions for reducing costs and increasing the profitability of the division, business unit leaders must have a good understanding of the economic laws by which any market operates.

Possibility of cost regulation. The costs of internal services must be controlled by consumers. This means that they must be priced before the start of the service period so that the potential costs are known in advance.