



POLITECNICO
MILANO 1863

Performance Management

Transfer pricing

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Exercises

Group AERO is composed by the parent and three subsidiaries: A, B and C. A is the upstream company of AERO that supplies and sells internally components to both B and C. AERO adopts a transfer pricing policy based on FULL ACTUAL COST plus a mark-up of 10% on the full actual cost (for example if the unit full actual cost of a product is 10€/unit, the transfer price is 11€/unit). The transfer price is calculated and then charged internally every month. The calculation of the unit actual cost is composed of three items: (1) direct materials; (2) direct labour; and (3) manufacturing overhead (OVH).

In January 2021, Subsidiary A has already produced 800 products using 1,500 machine-hours. At the end of January 2021, on the same day, Subsidiary A receives two additional orders (“4” and “5”), whose requirements are reported below:

	Additional units	Direct material (€/unit)	Direct Labour (€/unit)	Manufacturing overhead (€/unit)	N. of machine-hours needed per unit
Additional order 4 from B	150	15	13	11.25	1.5
Additional order 5 from C	350	15	13	7.50	1



Exercises

While raw materials are available and workers are paid on an hourly basis without capacity constraints, there is a constraint on the machine capacity. The maximum total machine capacity is 2,000 hours per month.

Considering the transfer pricing policy adopted, which of the following sentence is correct?

- a) For the Business Unit A, it is indifferent producing for B or C.
- b) The best option for A is to produce 100 unit for B (order 4) and 350 unit for C (order 5)
- c) Total revenues for the additional two orders for A are 20.143,75 €
- d) The best option for A is to produce 150 unit for B (order 4) and 275 unit for C (order 5)

