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Analysis of Transfer Pricing and Product Selling Prices

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A B S T R A C T

The purpose of this study is to understand the transfer and product price rates at PT Suri Tani Pemuka.The information presented in this study comes from processes of observation and data collection followed by analysis.This type of research is quantitative, but another type of research is later described that includes information on transfer and product price costs. This study was conducted at PT. Suri Tani Pemuka from 2020 to 2021. Data collection methods include observational techniques, in-depth interview processes, and documentation of findings to allow for visual evaluation of the results. The results of this study indicate that there are differences in how businesses set their prices using mark-up pricing and variable costing, and that there are differences between prices when businesses do not include non-production costs when setting prices for their products.

Tujuan dari penelitian ini adalah untuk mengetahui transfer dan tarif harga produk pada PT Suri Tani Pemuka. Informasi yang disajikan dalam penelitian ini berasal dari proses observasi dan pengumpulan data yang dilanjutkan dengan analisis. Jenis penelitian ini adalah kuantitatif, tetapi jenis penelitian lain kemudian dijelaskan yang mencakup informasi tentang biaya transfer dan harga produk. Penelitian ini dilakukan di PT. Suri Tani Pemuka dari 2020 hingga 2021. Metode pengumpulan data meliputi teknik observasi, proses wawancara mendalam, dan dokumentasi temuan untuk memungkinkan evaluasi visual dari hasil. Hasil penelitian ini menunjukkan bahwa terdapat perbedaan cara pelaku usaha menetapkan harga menggunakan mark-up pricing dan variable costing, dan terdapat perbedaan harga ketika pelaku usaha tidak memasukkan biaya non produksi pada saat menetapkan harga produknya.

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INTRODUCTION

Pricing and Transfer Analysis for Products Today's economic trends and technological advancements have led to the formation of a variety of industries, including both domestic and international businesses, whose purpose is to capitalize on consumer demand. This has had a huge impact on how various types of industries have grown commercially. Good management is necessary for the formation of various sorts of industries, starting with standard raw materials, finished goods, and marketing, including deciding on the selling price of the product. One of the key management decisions is deciding on the selling price of a good or service since it must be able to pay all costs and generate the profit the firm hopes to make. The primary aspect in deciding the selling price is the cost factor since it specifies the minimal requirement that the company must meet in order to avoid losses (Toar, Karamoy, and Wokas 2017).

Managers must be able to divide tasks and goals into distinct units or divisions and otherwise coordinate with regard to profit and performance measurement as a result of business advances that have led to product diversity and decentralization. Decentralization is the practice of giving lower parties more power and responsibility over decision-making. In this decentralization process, managers of newly formed work units or divisions are given authority and duty to decide operational matters inside their divisions (Anggraini, Yuniarti, and Wijaya 2017).

The transfer of goods or services between profit centers in a company whose organizational structure has been divided into profit centers raises transfer pricing issues because each profit center is measured on a profit basis, so any transfer of goods or services between profit centers will have an effect on the profit center. The process of business differentiation and the requirement for integration in businesses that have achieved business differentiation can be linked to the history of the emergence of transfer prices. The transfer price is a cost to the buying division as well as an income source for the selling division. There are issues that come up when figuring out the transfer price, issues that have to do with figuring out the proper and fair transfer price to be charged to the division that purchases the product.This depends on the precision in allocating expenses within the division so that both the division that transfers the product and the division that receives the product can set a representative price (Saputra, Angela, and Agustin 2020). Therefore, a significant issue that needs to be addressed by divisional and head office management is defining the transfer price that may be accepted by the selling division and the buying division (Göx and Schiller 2006).

The mistake in estimating the selling price of goods in manufacturing businesses is a problem that frequently happens. The business will die as a result of this (Zinn and Riedel 2014). Losses will be incurred by the company, and after a given amount of time, its growth may halt or be disrupted, making it difficult for management to make decisions (Clausing 2000). The cost of goods sold, which is more competitive in the marketplace, can be calculated correctly using the cost of goods manufactured. The authors are interested in doing research under the title "Analysis of Transfer Pricing and Product Selling Prices (Study at PT. Suri Tani Pemuka Years 2020–2021)" in light of the backdrop that has been provided above. The question of how PT Suri Tani Pemuka decides the transfer price and how to establish the cost of production will thus be addressed in this study.

Making decisions will require consideration of the uncertain future that the organization will confront. In order to make decisions based on the evidence at hand, one must always consider the future. In this scenario, the organization is dealing with uncertainty regarding its future. One element that directly influences a company's profit is price.The amount of items sold is impacted by the established price level. Prices can have an indirect impact on expenses since the quantity sold influences the costs incurred in relation to the effectiveness of production. Pricing therefore influences overall revenue and total costs, making pricing decisions and strategies crucial for every business (Secapramana et al., 2021). Pricing choices come in two varieties relating to internal and external consumers. Pricing selections are based on costs and profit-representing markup income.

In inter-divisional exchanges, transfer price is a particular selling price used to record sales division income (Selling Division) and purchase division costs (Buying Division). In the business of transferring goods or services (Rahma et al., 2020), a particular selling price known as transfer pricing is used in inter-divisional transactions to reflect the revenue of the selling division and the costs of the buying division. Transfer pricing is mostly used to assess and gauge a company's performance. However, international corporations frequently employ transfer pricing to reduce the amount of taxes paid through price engineering that is transferred across divisions (Gusnardi, 2009).

Naturally, management cannot arbitrarily set the transfer price; in general, neither of the parties involved will be harmed. In addition, transfer prices in actual practice must continue to be taken into account to ensure that management objectives are consistent with business objectives. The fundamental tenet is that the transfer price should be comparable to the cost of purchasing the product from an external supplier or selling it to an external consumer. However, it is exceedingly challenging to use in the actual world; just a few businesses use this principle. Method of Transfer Pricing (Barfield et al., 2001).

Cost Based Transfer Price is determined on the basis of the costs incurred by the selling division in producing goods and services. Transfer pricing is determined by considering 1) cost definition with alternative absorption costs, modified variable costs and/or absorption costs, 2) actual costs and standard costs. The disadvantage of this method is that if the selling division generates costs that are higher than the market price, the selling division will not earn a return on internal sales transactions and there is no incentive for cost control within the division.

Market Based Transfer Price is a method that minimizes differences in cost definitions. The company sets the transfer price based on the market price, which is considered objective.

Negotiated Transfer Price. Negotiated Transfer Price The negotiation method arises due to problems with the cost method and the market price method. This negotiation is carried out between the manager who sells the product and the manager who purchases the product. This method is carried out if there is a significant conflict between the two so that a price agreement is reached by both parties, so there is no need for arbitration. Its limitation is that it reduces the autonomy of these units.

For companies, production costs are the largest part of the costs that must be incurred by industrial companies. If cost information for a job or process is available quickly, management will have a clear picture of how to complete the task. To avoid deviations and waste of costs in the production process, companies must be careful and detailed in making financial reports, especially those related to production costs.

An industrial company's cost of production calculation seeks to satisfy the demands of both internal and external stakeholders. Cost accounting records, organizes, and summarizes production expenses with the aim of calculating the cost of made commodities.The price of raw materials, labor costs, and factory overhead costs are all included in the cost of production components. According to (Firmansyah, 2014), the cost of production is the total of all the economic resources sacrificed during the conversion of raw materials into finished goods. Because the cost of production is one of the aspects that affects the fundamental selling price and the formulation of policies pertaining to the company's processing, a company must ascertain the cost of goods produced. The profits made by a corporation are also determined by the cost of production.

The cost of raw materials, specifically the cost of raw materials that will be utilized to build an item, is considered when determining the cost of the product using the full costing approach. Labor expenses, on the other hand, are the costs associated with paying workers who produce a product. The final category is overhead expenses, which are expenses not related to labor and raw materials. There are two types of overhead expenses: constant overhead costs and variable overhead costs, where variable overhead costs are those that fluctuate in accordance with variations in the level of production activity (Cahyani, 2022).

The uncertain future that the company will confront will be taken into consideration when making decisions. Making judgments always involves considering the future in light of the information at hand, and in this situation, the organization is dealing with uncertainty regarding its future. Under normal circumstances, the product or service's selling price should yield the necessary profit while fully covering all associated costs. Full cost is the total amount of resources sacrificed to produce a good or service, and it must be paid by revenue, revenue, revenue, revenue. Instead of the investment necessary to create the good or service, the selling price in this situation must be able to provide a sufficient profit. The selling price must be sufficient to recoup all expenses and provide a profit reasonable to the investment. In exceptional cases, the product's selling price is not tasked with paying for all costs; rather, each selling price over variable costs has contributed to paying for fixed costs.

There is a variance in the calculation depending on the firm, which impacts the selling price income, according to (Basuni & Iskandar, 2021) on the Analysis of Cost of Production Calculation in Determining the Selling Price at Rajaswa Coffee. (Martinah & Nuhung, 2019) also looked at the job order costing method's application to the cost of production to improve the accuracy of the product selling price at Maju Jaya Aluminum, China District, Bone Regency, which suggested that the job order costing method's application to the cost of production to improve the accuracy of the product selling price at the advanced jaya aluminum, China sub-district, bone district. (Nggiu et al., 2014) also noted in their research that the calculation utilizing the company's method resulted in a lower transfer price because marketing costs and general and administrative costs were still not taken into consideration. The transfer price becomes more competitive when full costing is used, thus the business should employ this strategy and account for all costs when determining the transfer price since it will help PT. Massindo Sinar Pratama Manado with profit planning, cost control, and decision-making. As a result, the researcher suggests a study framework that is described as follows, based on a number of prior studies and problems:

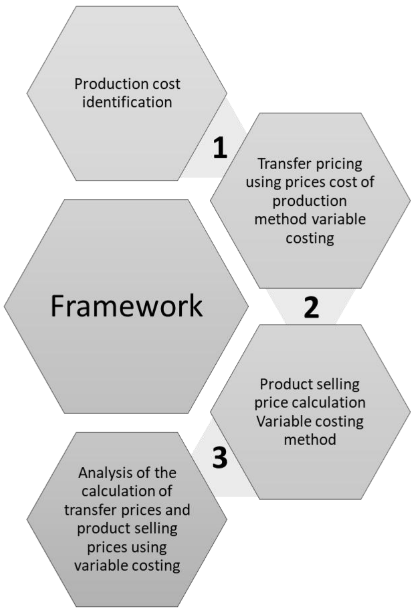

Figure 1. Framework

RESEARCH METHOD

Descriptive analysis was the method of research used in this study. The analytical technique involves gathering, classifying, preparing, and processing data before evaluating, drawing findings, and making recommendations in order to create a clear, methodical, and accurate image of a research object. Quantitative data is realized through statistics calculated or measured connected to costs, cost of goods, and profit and loss of the company. This type of data is employed in the research methodology. Researchers primarily examine how transfer prices and product selling prices are calculated using the variable costing approach to calculate the cost of items. (Sugiyono 2010).

The focus of this study is PT. Suri Tani Pemuka, an aquaculture business situated on Jalan Ujung Indah in the Barru Region's Cilellang Village, Mallusetasi District, and Barru Regency. The time of the research was carried out in March 2022. The researcher collected the data directly from PT. Suri Tani Pemuka's management and staff, who are authorized to supply the information in the form of costs associated with product transfer through interviews or on-site observation.

Interviews and observation are utilized as data collection techniques. Observation, specifically performing in-person observations at PT. Suri Tani Pemuka to gather information on the state and position of the business, its organizational structure, and its operations. Direct interviews with corporate executives and the finance division were done. With the help of this, researchers can learn more specifically about the company's history, its current operations, and the information that will be gathered regarding costs and the cost of goods for a particular product. Then, documentation is a technique for gathering data that involves perusing report materials that the organization has, such as cost reports for products.

RESULT & DISCUSSION

Present the results of your work. Use graphs and tables if appropriate, but also summarize your main findings in the text. Do NOT discuss the results or speculate as to why something happened; that goes in the Discussion.

1. Analysis of Transfer Price Calculation and Product Selling Price

In general, the calculation of transfer prices using the cost-based transfer price method can be determined based on the method of determining the cost of goods using the variable costing method. Calculation of the cost of production of variable costing at PT. Suri Tani Leader as follows:

Table 1. HPP PT Suri Tani Pemuka

Cost:	**2020**	**2021**
Material Cost	3.888.068.572	2.660.945.981
Direct Labor	474.202.000	330.437.000
Overhead	280.873.365	201.164.322
Product HPP Total	4.635.143.937	3.192.547.303
Number of Product	2.592	2.364
HPP total/Unit	1.788.250	1.350.485

Source: Self processed, 2022

Determination of transfer prices with the variable costing approach sets the profit percentage at 15% and the initial inventory from the cost of production, as follows:

2020:

- Mark Up Calculation

Fixed Cost		: 324.043.713
Expected Profit	15% x 301.990.913	: 45.298.636
Total		: 369.342.349
Variable Cost		: 280.873.365

Mark up 131%

- Calculation of Selling Price

Variable Cost	: 280.873.365
Mark up 131% x 280.873.465	: 367.944.108
Total Selling Price	: 648.817.473
Production Volume	: 2.592 kg
Selling Price per kg	: 25.000

2021:

Fixed Cost		: 319.153.876
Expected Profit	15% x 222.052.147	: 33.307.822
Total		: 352.461.698
Variabel Cost		: 201.164.322

Mark up 174%

- Calculation of Selling Price

Variable cost	: 201.164.322
Mark up 174% x 201.164.322	: 367.944.108
Total selling price	: 569.108.440
Production Volume	: 2.364 Kg
Selling Price per kg	: 24.000

The process of determining the selling price of variable costs. The method used by PT. Suri Tani Pemuka to calculate the profit margin of 15% of production costs is as follows:

2020:

Selling Price = Fixied Cost + Mark up

= (HPP + Non Production Cost) +15%

$= (4.635.143.937+37.650.794) + 695.271.590$

$= 4.672.795.731 + 695.271.590$

$= 5.368.066.321$

Selling Price/unit $= \frac{total\ cost + Mark\ up}{Production\ Volume}$

$= \frac{5.368.066.321}{2.592}$

$= 2.071.013$

2021:

Selling Price = Total Cost + Mark up

= (HPP + Non Production Cost) +15%

$= (3.192.547.302 + 38.071.238) + 478.882.095$

$= 3.230.618.5423 + 478.882.095$

$= 3.709.500.637$

Selling Price/unit $= \frac{total\ cost + Mark\ up}{Priduction\ Volume}$

$= \frac{3.709.500.637}{2.364}$

$= 1.569.162$

2. Calculation Analysis

Comparison of the transfer price with the cost of production using the variable costing method shows different results.

Table 2. Transfer Price Calculation Based on production price

YYear	Variabel Costing	Company	Deviation
22020	1.778.250	1.967.077	-178.827
22021	1.350.485	1.713.423	-362.938

Source: Self Processed

The table above compares the results of the company's cost of goods calculation with the cost of goods determined by an analysis of the variable costing method. A pricing discrepancy results from the calculation's error. This is due to the fact that PT. Suri Tani Pemuka's calculation of the BOP was not exact and precise, and the business failed to incorporate income tax as a component of actual non-production costs, which would have affected the assessment of the transfer price. As a result of the study, the transfer price in 2020 that accounts for the cost of production is -178,827 less than what the corporation calculated. While in 2021 there is a difference of -362,938 between the analyses' calculation and the company's calculation.

Because the company's calculations did not accurately position the costs, there is a huge disparity. Because the variable traces costs directly related to the production process, the full costing method used by the company results in a larger cost of goods, whereas the variable costing method results in a smaller cost of goods. In other words, the full costing method can result in higher profits for the company. Using transfer pricing to calculate the selling price of the product and generate the targeted profit for the company is more appropriate when using the variable costing method.

Comparison to selling price:

Table 3. Comparison of Product Selling Prices

YYear	Variabel Costing	Company	Deviation
22020	2.071.013	2.170.586	-99.573
22021	1.569.162	2.124.176	-555.014

Source: Self Processed

The table above illustrates how different companies calculate the selling prices of their products: (1) In 2020, the company set the selling price at Rp. 2,124,176, but the analysis' findings using the variable costing approach are Rp. 1,569,162. (2) In 2021, the selling price established by the business is Rp. 2,170,586 while the results from the variable costing approach are Rp. 2,071,013; hence, the selling price of the analysis results is less than the business's calculation.

Because the calculation concept adheres to accounting principles, the variable costing method's computation illustrates the amount of overhead costs very fully. The selling price offered by this method will be less than what the corporation determined. The production expenses and the desired profit are included in the selling price. Because the product is sold to the primary market rather than to customers directly, the corporation does not base the selling price on the cost of manufacture. The market price, whether it is a high price or a low price, is used to calculate the selling price.

There are variances in how the selling price of the product is calculated, according to an analysis of secondary data based on the findings of calculations utilizing the mark up pricing method with a variable costing approach.

Costs incurred throughout the production process as defined by the cost accounting concept are not included in the company's calculation of the product's selling price. Because all components of production costs and production expenses are calculated in accordance with the principles of cost accounting ideas, organizations are better suited to employ the mark up pricing method with a variable costing approach when calculating the selling price of items. Thus, it can lower the company's chance of suffering a loss. The markup pricing method with a variable costing approach is more suitable to use transfer pricing for businesses in determining the selling price of products and can produce the profit desired by the business because the cost elements—the cost of raw materials, direct labor costs, and variable overhead costs—are calculated using this method.

CONCLUSION

1. Only variable costs are considered when determining the transfer price with the cost of production using the variable costing method, but non-production costs are also taken into account when determining the selling price. Demonstrates the cost of determining the analysis results' selling price, which is less expensive than the company's estimation.
2. The effect of using the variable costing method to calculate the transfer price along with the cost of production on determining the selling price reveals the difference in the price because the company has not included non-production costs in an effort to offer a lower price and compete with other businesses.

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