

# Internal Transfer Prices Based On Activities And Their Role In Evaluating The Performance Of Profit Centers

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## Abstract

The aim of the research is to demonstrate the benefit from internal transfer rates in evaluating profitability centers, and to clarify methods for using activities based on activities in determining internal transfer prices in economic units, as well as showing the impact of applying internal transfer rates based on activities in increasing the accuracy of costs and giving more detailed information and its reflection on A correct image of the evaluation of profitability centers, and the research problem revolved around whether the use of internal transfer rates based on activities would enhance the performance evaluation of the economic unit in the research sample. Leather Industries (research sample), which is one of the companies affiliated to the Ministry of Industry to evaluate the performance of its profit centers. The research reached a set of conclusions, the most important of which were: (The application of the ABC system in the small tanning center in the laboratory, the sample of the research provided a fair product cost for the products of the center due to the identification and analysis of the activities in this center and the diagnosis of those activities that add value and those that do not add value and on it each activity It bears the costs it deserves, which helps to determine a transfer price on the basis of a fair college cost, which helps the managers of profitability centers to take the right decisions and evaluate the performance of these centers due to their adoption of the basis of activities that provides better information for managing costs for those activities. The research came out with a set of recommendations, the most important of which were : (The Iraqi economic units, especially the research sample laboratory, should adopt the appropriate transfer price policy according to the nature of their activity and products, and use transfer prices as a basis for transferring products to carry out internal transfers between the company's sectors and in a manner that contributes to evaluating the performance of those sectors).

## Introduction

The importance of using the activity-based costing method (ABC) has emerged, which helps in providing detailed data for each activity and is more accurate in allocating indirect costs, which helps management in removing unnecessary activities borne by the product, which in turn will be reflected in its cost.

The economic units have attached great importance to the issue of performance evaluation because of the administration's need for a periodic and continuous evaluation of the various

activities practiced by these units to determine the effectiveness and adequacy of their performance. His goals were sufficient and effective, he had to be based on modern accounting methods that achieve objectivity and justice in evaluating the performance of responsibility centers that traditional systems have been unable to achieve due to their reliance on methods considered deficient under the conditions of the contemporary business environment, which is surrounded by many variables and rapid and continuous changes, especially with regard to By allocating and

distributing indirect costs and focusing these systems on the financial performance of those centers or departments in the economic unit, so the activity-based costing system appeared to solve the problems that traditional systems were unable to solve by distributing indirect costs more appropriately than traditionally applied and focusing on financial performance. And the non-financial performance of the activities of the economic unit, in addition to the association of this system. With other techniques that have enhanced its effectiveness in reducing costs for goods and services by dispensing with unnecessary activities that do not add value, in addition to other advantages enjoyed by the system, which achieves the objectives of the responsibility accounting system by evaluating the performance of responsibility centers in a more appropriate and objective manner.

### **The first topic: research methodology**

#### **First: the research problem**

The research problem centers on the weak use of industrial economic units for an appropriate method in calculating the transfer prices for transferred products, as well as the weakening of the adoption of internal transfer prices to evaluate the performance of profit centers, and their dependence on cost prices, so the research problem can be formulated in the form of a set of questions, namely:

1. Are there instructions specifying the method used by managers to choose the appropriate method for pricing products transferred between internal departments?
2. Is there a role for the basis of activities in determining the internal transfer prices in the economic unit for evaluating profitability centers?

#### **Second: Research objectives**

The research seeks multiple goals, the most important of which are the following:

1. A statement of the benefit from internal transfer prices in terms of concept, importance,

characteristics and their role in evaluating profitability centers.

2. Clarify the methods of using the basis of activities in determining internal transfer prices in economic units.
3. Statement of the effect of applying internal transfer rates based on activities in increasing the accuracy of costs and giving more detailed information and its reflection on a correct image of the profitability centers evaluation.

#### **Third: The importance of research**

The importance of the research comes from the vital role that profitability centers provide in economic units and the extent of its contribution to achieving their goals, which requires the use of modern technologies in the contemporary business environment, including the use of the basis of activities in determining internal transfer prices because it is one of the modern methods and appropriate to the nature of the work of economic units in evaluating centers. Profitability, which contributes effectively to sustainable economic development in the labor market.

#### **Fourth: the research hypothesis**

The research is based on a main hypothesis that:

The use of internal transfer rates based on activities in evaluating the performance of profit centers gives more accurate and detailed information about the reality of these centers.

#### **The second topic: a theoretical introduction to performance evaluation using activity-based transfer rates**

##### **First: the concept of transfer rates**

Many writers and researchers have dealt with transfer prices and defined them, each according to his point of view, according to the following:

Define the transfer price as the price specified for goods and services transferred through profit centers or profit centers. This price is issued only when there are estimated transfers of goods and services between centers.

Hansen & Mowen, 2007: 440 defined it as "the price charged for a component by the selling department to the purchasing department in the same economic unit".

Transfer prices are also defined as the prices imposed on goods produced by one department and transferred to another department. These prices affect the revenue of the transferred division and the costs of the receiving division. As a result, the profitability, return on profitability and performance evaluation will be affected in both departments (Limina Guan. et al, 2009: 156).

It was defined as the price at which a responsibility center (profit or investment center) transfers its products or services to another responsibility center within the same economic unit to complete their manufacture or use in another product, as the price that is considered revenue for one center is considered a cost to the other center. (Al-Galabi, 2019: 68)

As defined by (Lanen, et al., 2011:549) as "the value or amount recorded in the records of an economic unit when an organizational unit sells (transfers) a good or service to another organizational unit."

It was also defined as the value upon which the transfer or exchange of goods and services between the organizational sub-units is built. They are internal prices. Undoubtedly, the importance of these transfer prices and the degree to which the economic unit needs them depends primarily on the volume of transactions or operations subject to exchange and dealing between The divisions of this economic unit, if the size of these transfers was small, the effect of transfer prices in measuring the performance of the divisions is of little importance, and on the contrary. (Osama, 2014: 68).

Through the previous definitions, the reasons for applying transfer prices and their impact on departmental revenues and costs, and consequently their role in measuring and evaluating the performance of departments, reducing waste and losses, enhancing profitability and improving the competitive position of the economic unit, become clear.

### **Secondly: the importance of transfer prices**

The importance of the transfer price comes as a result of the effect of this price on the business results of the selling division and the buying division and on the economic unit as a whole. The managers of the selling department and the buying department are evaluated on the basis of the department's profits and not on the basis of the profits of the economic unit, and therefore all sales and purchases, whether internal or external, affect the department's profits and not the profits of the economic unit (Lanen, et al., 2011 :550). And these prices affect the revenues of the department that made the transfer and the costs of the receiving department, and they are (ie, revenues and costs) essential elements in calculating profit and return on profitability that are usually used in evaluating the performance of departments (Hansen, et al., 2009:349).

### **Third: Methods for determining transfer prices**

There are several methods for determining transfer prices in practical application, and the choice of one method over another depends on the objectives of the administration and on the different production pricing systems and the advantages these methods have. These methods will be addressed as follows: (Al Kabarati, 2001: 38)

#### **I- Transfer rates based on market rates**

The main problem that an economic unit can face when using market prices as a basis for determining transfer prices is that some goods or services subject to transfer and internal exchange do not have a market price, because these goods or services may have special characteristics and characteristics that make any An external price is just an approximation of the market value of these premium and special goods and services (Mohammed, 2018: 31).

It is easy to identify the market price as it is available, and it can lead to optimal decisions and also does not result in a conflict between the motivational performance criteria (compliance of goals, administrative effort and independence), but there are conditions that must be taken into account when choosing the market

price, which are as follows: (Al Kabarati, 2001: 39)

- Using the market price to price products between internal divisions.
- The seller has the freedom to choose between selling and transferring.
- That there be an arbitration committee for repeated intervention, to settle disputes between departments.

As for the adjusted market price, in the event that the market price of the goods and services subject to exchange and transfer between sections of the internal economic unit is available, then this price must be adjusted before relying on it as internal transfer prices to reflect the internal conditions and conditions that accompany the transfer of these goods and services between sections of the economic unit.

In addition to this, there are other variables such as special production needs, storage costs and other variables that must be taken into consideration when determining the adjusted market price.

Also, in the absence of the market price of the commodity or service subject of exchange due to its distinction and uniqueness, the market price is usually chosen and determined for the closest alternative commodity actually offered in the market, and then this price is adjusted after that to reflect any difference in the characteristics of the commodity subject of internal exchange from that alternative selected. (Abu Nasser, 2005: 25)

## 2- Transfer rates based on cost

When there is no external market for intermediate products that are exchanged between the internal departments of the economic unit, it is more appropriate to use the cost basis in pricing the transferred products. The transfer price is used on the basis of cost in economic units that follow the central method in managing their operations, which is the cost is the basis for measuring the efficiency of the performance of the selling department, which requires treating the department in this case as a cost center only, and the cost includes many concepts such as marginal or

variable cost, added And the standard total cost, or actual, and the following is an explanation of each of them:

### a. Variable or marginal cost method

Variable cost is an acceptable approximation to marginal cost, and they believe that production should be sold when its marginal cost is equal to its revenue, and one of the advantages of variable cost is that it is a substitute for the market price when there is no market price for the transferred product, and one of its advantages is that it leads to an increase in the activity of the purchasing departments and as a result Therefore, the activity of the selling divisions increases, and the company's production and profits increase to an upper limit. Among its disadvantages is that over time the variable cost in the selling departments tends to decrease while the fixed cost tends to increase, and the conflict between managers of purchasing departments and managers of selling departments increases (Osama, 2014: 29).

### b- The total cost method

The total, actual or historical cost is the most common and used basis for determining transfer prices, especially in the absence of market prices, because the actual cost is characterized by being accurately determined as it is actually available and with relative ease. And that this cost should include all direct and indirect variable and fixed costs. (Mohammed, 2018: 12)

### c- Variable cost plus a specific amount method

This method is applied on the basis of adding a certain amount or percentage to the variable costs, in other words, the return on the contribution to the economic unit is distributed in its entirety according to one basis or another on the productive centers, and this method does not conflict with the goal of determining the optimal level of activity and to achieve the maximum possible profits for the economic unit All in all, because all the profit centers that deal together will work to maximize their transactions with each other in order to maximize their own profits (Al-Nuaimi, 2017: 65)

**d - cost plus a certain profit**

Because the market price contains a set of obstacles that limit its use as a transfer price, or because market prices are sometimes not available, the total cost method has been used, which focuses on the standard (or actual) cost in addition to a certain profit. This method is characterized by its mixing between market price and cost, especially when the intermediate product has specifications that differ from what is in the market by setting a synthetic or industrial price as a good practical alternative to the market price (Gouda, 2019: 23).

**e- Standard cost**

Relying on standard costs in determining transfer prices would be based on measures that only reflect the efficiency of the selling department. And that the use of the standard cost system would detect the causes of inefficiency early and thus prevent it from reaching the cost of the final product, which will be transferred later from the seller's division to the buyer's division (Abu Nasser, 2005: 26).

**3- Negotiated transfer pricing**

Negotiation prices are those prices which are determined as a result of bargaining between the seller and the buyer. This means that each department is given complete freedom to negotiate and decide the price of its product, whether it is a commodity or service. At the same time, unless this price is agreed upon, each department is completely free to enter foreign markets, either to dispose of its production or to meet its needs. One of the advantages of negotiating prices is that they stimulate autonomy in decision-making, and has a significant impact on motivating department managers, and one of its disadvantages is that it consumes the time of managers involved in the negotiation process, especially if the volume of deals is large, and leads to conflict between departments and makes measuring the profitability performance of departments affected by the negotiation skills of Directors (Asim, 2015: 25)

**4- Managed Transfer pricing**

They are the transfer prices that are established from a specific manager, for example, they may be based on the market price minus a certain percentage or on the basis of the total cost plus a certain percentage, and that these prices are often used by economic units when they have certain special transactions that occur infrequently, however These prices do not reflect economic considerations, as in the case of market-based or cost-based transfer prices, nor do they reflect accountability considerations, as in the case of negotiated prices (Asim, 2015: 96).

**5-Double pricing system**

Under this system, the products are priced when they are transferred to the buying department at the variable cost, and the selling department is allowed to sell at the market price or the standard cost plus a percentage of the profits. It is also called the inbound market and the cost out.

The purposes that transfer prices serve differ in both sections (buyer and seller). The buyer section can be based on the transfer price in making or buying decisions as well as in determining the selling price of finished products on the basis of full knowledge of the different total costs, while the seller section can be based on the transfer price in measuring the performance of the department, as well as it will reject any price that cannot provide the department with profits (Al Kabarati, 2001: 47).

From the foregoing, it is noted that there is a variety of transfer prices, and each of these prices has certain conditions that can be applied when available. Each has its own advantages and disadvantages. Every economic unit can apply the price that suits its activity and the nature of its products.

**Fourth: Transfer prices using the activity-based costing system**

As a result of economic development, the increase in competition, the multiplicity of product types, scientific and technological development, and due to the failure of traditional systems in accurately calculating the cost of the product, as the intensity of competition made management men doubt the accuracy of traditional systems for determining cost in the areas of

product design, manufacture and marketing, and thus making rational decisions, especially in the field of Internal transfer rates. This is because traditional systems often record the cost of a product or service in a distorted fashion as a result of wrong assignments. Large-volume products are carried at a cost that is too high, and then high prices are set for these products. The same applies to low-volume production, as it is charged at a lower cost than necessary, and then priced at low prices, regardless of the complexity and simplicity of the product (Hilton, 2018: 173).

Therefore, this inaccurate distribution of costs will obscure the management in making its decisions, making it take inaccurate and objective decisions about the internal transfer rates.

At the beginning of the eighties of the last century, a method of determining cost accurately appeared based on the idea of activities and not cost centers called Activity Base costing (ABC) method that provides information on costs that helps management in the manufacture and sale of various products that management can benefit from this information in making pricing decisions and determining the product mix, (Horngren) considered it one of the best tools for improving the cost system by focusing on activities as primary cost objects and using the costs of these activities as a basis for allocating costs on the final cost objectives (such as products, services, customers) Horngren, 2019: 168) An activity is an event, task, or work unit for specific or specific purposes, such as designing products, preparing machines, operating machines.

In order for the pricing method for transferred products to be more fair, the concept of activity-based pricing appeared, which was also called the use of activity-based costs for transfer prices. Centers and how to measure costs in the application, as it is now possible to use activity-based cost estimates as a mechanism for the transfer price. Determining the annual fixed portion of the costs provides some incentive and control benefits.

**The third topic: the use of internal transfer pricing based on activities in**

### **evaluating the performance of profit centers in the General Company for Leather Industries**

#### **First: A brief history of the General Company for Leather Industries**

The General Company for Leather Industries was established in 1970 following the merger of the Bata Factory, which was established in 1932 with the People's Shoe Factory in Kufa, which was established in 1960, to form the Bata General Company and this company was merged in 1976 with the National Tannery Company established in 1945 to form the General Establishment for Leather Industries as one of the Formations of the Ministry of Industry and Minerals.

The General Establishment for Leather Industries was transformed into a public company under the Companies Law No. (22) of 1989 under the name of the General Company for Leather Industries, with a capital of (50,000,000) fifty million dinars, based on the provisions of Article 40 of the said law (Iraqi facts, No. 3741 in 28 /9/89) and the capital was adjusted to (1,520,000,000) one billion five hundred twenty million dinars by Resolution No. (70) on 15/5/1999, and it was not amended after that until the date of preparing the research and in 2015 the company was merged with six other affiliated public companies To the Ministry of Industry (cotton, handmade carpets, textiles, ready-made clothes, woolen, textile) and according to Ministerial Order No. (411/24/53469) on 12/17/2015 to be named the General Company for Textile and Leather Industries/Leather Factory, which is one of the companies of the Ministry of Industry and Minerals . The company has a legal personality with financial and administrative independence, and a special financial and accounting system approved by its board of directors, in which the unified accounting system is taken into account, and it is subject to the oversight and auditing of the Federal Financial Supervision Bureau.

#### **Second: Transfer prices determined according to costs on the basis of activities**

The ABC system will be applied to the transfer price due to the accuracy of the information provided by this system, and this will help the center managers in evaluating the activities of each center because the pricing of intermediate and transferred products between these centers is based on sound foundations, and an attempt to calculate the cost of the product. The basis of the activity is on Baghdad Factory No. (7), as it is characterized by

competitive prices with the importing private sector, in which all types of quality are available. Which have more sales, the factory consists of one integrated production line, that is, it contains three stages (separation, sewing, traction), the number of workers in it (67) permanent workers on the owners, (5) daily wage workers for cleaning distributed in three stages and as follows :-

Table (1) Stages of work and number of operators

no	sequence	Number of employees
1.	separation	6
2.	sewing	Engineer 1
3.	Sewing worker on a machine	11
4.	Handcrafts	11
5.	traction (technicians)	23
6.	traction (manual work)	15

#### **(first) Costing System Activity of the Research Sample Company:**

In calculating the costs of its products, the company relies on the system of production stages, and sometimes there are special requests (orders) executed by the laboratories according to special approvals from the company's senior management. Below is the mechanism of operation of the costing system applied by the company:

#### **I- Cost centers:**

The company has a cost system according to which cost centers are determined in light of the main division contained in the unified accounting system, taking into account the administrative division.

##### **A- Production centers:**

It reflects the activity carried out by the company in which the production elements (machines, materials, work) interact in order to convert them into a final product.

##### **B- Productive Service Centers:**

It includes the departments and divisions centers that serve the production centers as a measure of production requirements of raw materials and

assistance in their storage and maintenance of machinery and equipment.

##### **C- Marketing service centers:**

These centers include marketing management, sales agents, advertising, inspection, marketing research, export expenses, truck drivers' wages designated for the distribution of goods, their expenses, telephone expenses, and exhibition rents.

##### **D- Administrative Service Centers:**

These centers include the public administration and its financial and administrative bodies, and the bodies of supervision, control and internal follow-up in the company. We note that the objectives of these bodies are to coordinate between production and marketing and to arrange the necessary funds to finance the company's activity.

#### **2- Cost Centers Guide:**

The cost centers guide for the leather garment factory in the Zafaraniya site has been developed in light of the main division contained in the unified accounting system, and table (2) shows the cost centers guide:

Table (2) Directory of production and service centers in the leather clothing factory

Cost center name	Cost center number
production centers	Monitoring ( 5 )

Design and technical management of the laboratory	50707010
separation	50707020
sewing	50707030
sequel	50707040
Productive Service Centers	Monitoring ( 6 )
mechanic	60707010
Raw Materials Store	60707020
marketing centers	Monitoring ( 7 )
Ready-made goods store	70707010
Administrative and financial centers	Monitoring ( 8 )
Administration and services	80707010
Administrative Burden Center	80707020

Source / Directory of Cost Accounts Division in the General Company for Leather Industries

### 3- Elements of costs in the General Company for Leather Industries - Leather Garments Factory :

Cost elements consist of materials, wages and indirect costs. These elements are classified according to the classifications of the standard accounting system, as follows:

A. Account (31) of salaries and wages:

This account includes the salaries and wages of employees and workers in the laboratory. This account is analyzed on the cost centers according to the actual presence in each cost center. The names of employees and workers are carried over to the calculator according to the cost centers according to the payroll, in which information is specified regarding the affiliate number, the competent cost center and the name of the employee or worker. The Accounts Department issues monthly lists of salaries according to the salary and wages disbursement report, distributed according to cost centers.

B. Account (32) Commodity Requirements:

This account is analyzed on two types of sub-accounts, some of which are allocated directly to the cost centers, such as the account (321) raw materials and raw materials. Inventory accounts make inventory export entries according to special reports, and

cost accounts analyze those restrictions on cost centers on the .expense analysis form

The same applies to the account (324) for packaging materials and the rest of the other accounts. As for the accounts of the second type that cannot be allocated directly, they are the indirect expenses such as the account (322) for fuel and oils, and the account (327) for water and electricity.

C. Account (33) for service requirements:

The nature of its sub-accounts is indirect, such as account (331) maintenance of buildings and account (3324) maintenance of transportation and some of its accounts are directly on cost centers as account (3313) maintenance of machinery and equipment, so its costs are directly on cost centers, and also, account (334) transfers workers, so it is Its nature is directly on the cost centers.

D. Account (37) depreciation:

This account includes items that can be allocated directly to the cost centers and are represented in the deterioration of machines, buildings, cars and furniture. These expenses are recorded according to the generally accepted ratios of machines and machines and are

charged to the production departments according to the values of the machines in the factory, either the deterioration of buildings and their maintenance, which are indirect costs on the cost centers. It is distributed in proportion to the area occupied by the factory or the cost center, and so on for the rest of the other assets.

#### 4- Allocation and distribution of indirect industrial costs:

The process of compiling and calculating indirect industrial costs consists of several steps arrival to determining the cost of production, as follows:

##### Step One: Recording Expenses (Inventory of Cost Components)

The finance department records these expenses through the documents that are received by the financial department of the laboratory. These documents show the exchange party and the value of the expenses. These expenses are recorded in the entries, each according to the type of expense. A copy of these documents is sent to the cost accounts department. These restrictions include all amounts disbursed, whether salaries, wages, allocations, various raw materials, or other indirect expenses.

##### The second step: analysis of expenses on cost centers (distribution of costs to cost centers)

The cost accounts department performs this task, and a copy of the daily entries organized by the financial department is received. The department's staff analyzes the expenses on the beneficiary centers using a form prepared for this purpose (expenses analysis form, adjusting amounts, or modifying an error in posting documents). It is sent to the calculator to be carried over to the centers and to extract monthly results with the expenses of each center.

These elements (uses) are of two types:

1. Cost elements allocated directly to specific centers such as commodity requirements, wages.
2. Elements of general and joint costs, and it is required that the cost accounts distribute these elements to the beneficiary centers according to appropriate distribution bases such as depreciation and others. Accordingly, it is possible to show a summary of the work of the leather clothing factory and how the costs are distributed among the production centers and the production and service departments in the company for the year 2021 as shown in Table (3).

**Distribution of costs to the supervisors of the leather clothing factory Table (3)**

the details	production centers	(5) Productive Services	(6) Marketing services	(7) Administrative Services	(8) total
Costs	1386,562,37	17694,836	3070380	22535139	1429456592
The center's share of the company's management costs *	-	-	1554260	111,3642	12737902

The center's share of the costs of the Zafaraniya plant**	-	12406315	-	16532567	.28938882
the total	1386,562,37	3010151	4624640	50251348	1471133376

(\*)Means the joint centers with the General Administration that provide their services to the company's sites, including the leather clothing factory

(\*\*) means the joint centers in the Zafaraniya site (large and small tanning and bags)

Table (4)The share of the leather clothing factory from the marketing and administrative costs of the company's headquarters

Marketing Services (70103)	Total Monitoring (7)	Senior management (80101)	People Management (80102)	Accounts (80103)	Department of Material (80104)	total control (8)
1554260	1554260	1050176	1354975	6705363	2073128	11183642

Table (5)The share of the leather clothing factory from the service and administrative centers of the Zafaraniya site

Chemicals Laboratory(60303)	Spare Tool Store(60302)	Transportation Division(60306)	Medicine(60307)	total watch(6)	People Management (80301)	total observation (8)
608779	133687	10481291	1182558	12406315	16532567	16532567

The third step: Redistribute the costs of service centers to production centers

In this step, the process of redistributing the costs of the service centers to the production centers, for the purpose of accumulating costs in the production centers. The costs collected in the production center consist of:

1. The costs allocated and distributed to this center according to the previous step (2)
2. The center's share of the costs of other service centers.

There are several ways for the purpose of redistributing the costs of service centers to production centers, which are:

- A. Gross distribution method
- B. Individual distribution method
- C. Descending distribution method
- D. Cross-distribution method

These methods adopted in distributing the costs of production

service centers serve the same general purpose, which is to determine the cost of the production center with its direct and indirect costs distributed according to one of the methods mentioned. However, these methods vary in the accuracy, fairness and difficulty of the distribution.

In light of the above considerations, the third method (Descending Distribution Method) is adopted for the purposes of distribution, as it parallels between accuracy and justice on the one hand and the efforts made on the other hand, in addition to being more common in application in Iraq.

The company follows the method of not analyzing the production and service centers into sub-centres,

but rather it is a single general center, and thus there is no need for a redistribution process, but the total costs of the service centers are added to the total costs of the

production centers, and thus the allocated and distributed costs for the year 2015 as in the following table (6):

Table (6) The sum of allotted and allocated costs

Statement	the cost
Total costs of production centers (5)	3386156237
Total costs of service centers (6)	300101151
Total costs of marketing services (7)	40624640
Total administrative services costs ( 8 )	510251348
The sum of allotted and allocated costs	4237133376

Fourth step: Determine the production share of indirect expenses

The company assigns costs (industrial, marketing, and administrative) to production centers based on historical data according to rates prepared for that, as follows:

Charging rate of industrial expenses = industrial expenses (total control expenses (6) production services plus "total total control production expenses (5) minus" h/31 wages and h/321 direct raw materials divided by direct wages (paid wages).

Marketing Expenses Charging Ratio = Marketing Expenses Total Monitoring Expenses (7) Marketing Services Divided by (Industrial Expenses Extracted Above + Direct Wages)\*.

Charging rate of administrative expenses = administrative expenses (total monitoring expenses 8) administrative services divided by (above industrial expenses + direct wages) \*\* The company has calculated the charging rate of marketing costs on the basis of the sum of indirect industrial costs + direct wages. According to the following two equations:

marketing costs

Marketing charge rate =

$$\frac{\text{Indirect industrial costs} + \text{direct wages}}{\text{Total production costs}}$$

Administrative costs  
Administrative cost charge rate =

$$\frac{\text{Indirect industrial costs} + \text{direct wages}}{\text{Total administrative costs}}$$

In doing so, they rely on the directives of the Economic Department in the Ministry of Industry and Minerals, based on what was stated in the unified accounting system (page 387), which states: Monitoring (7) and (Monitoring 8), but also includes their share of indirect industrial costs (costs of production services centers / monitoring 6) as far as the service centers that these two activities benefit from (such as social service centers, maintenance workshops and warehouses).

For the purpose of showing how to calculate the direct and indirect costs of a model of the company's products (the women's wrap), a table (7) has been prepared to clarify this, according to the following:

Table (7)

The costs of the basic model of the female hoodie

Ministry of Industry and Minerals

General Company for Leather Industries

Model: Women's Long Sheep Hood Pricing Form Date //

Article details	standard unit	Quantity	price	the value
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			Dinar	fils	Dinar	fils
sheepskin	feet2	52	-	1800	-	93600
lining fabric	m2	5.2	-	1000	-	2500
epaulettes	Husband	1	186	300	186	300
reinforcement cloth	m2	7.0	926	337	548	236
histological mark	Number	1	055	-	055	-
nylon thread	meter	400	940	2148	830	343
latex gum	grumble	100	526	1684	453	168
neoprene gum	grumble	50	690	2998	935	149
Textile tag for lining	Number	1	081	-	081	-
mark made	Number	1	-	77	-	77
measuring label	Number	1	055	-	055	-
Dumpling tray 7 large pieces	Number	5	038	-	190	-
Non-woven lining	m2	5.0	832	912	417	456
Dough 7 small pieces	Number	6	035	-	210	-
Total costs					960	97732
wages	It is determined by dividing the monthly wages of workers ÷ the amount of production				-	4500
industrial expenses	It represents 70% of wages				-	3150
Administrative expenses	It represents 67% of wages + industrial m				-	5125
Marketing expenses						
Total production costs					960	110507
Profit margin	It represents an average of about 4% of the costs				040	4492
manufacture price						
selling price					-	115000

Source / records of the General Company for Leather Industries

The price specified in the table for raw materials represents the weighted rate per unit according to the company's records

From the foregoing, the following scope has been determined:

A - The system focused on collecting costs in production, marketing and administrative services centers, but it relies on them in determining the prices of final products inside the factory.

B - Although the system divided the plant into production cost

centers and production, marketing and administrative services, it allocated costs and distributed its components to these centers, but it collected these costs in a single cost complex and prepared a single charge rate to distribute the costs of these centers to production centers and rely on the basis of loading Subjective and proper.

C - There are bases that have been used in the distribution of indirect costs on production that are not appropriate and may be random,

which must be focused and reconsidered.

D- The company's adoption in calculating the marketing cost charging rate on the basis of the total indirect industrial costs in addition to direct wages, as well as the case with administrative costs, and their justification for the case is not convincing because the indirect costs are charged on a single basis. .

Second: The company's price policy. Research sample:

The prices of the company's products are determined in the research sample in accordance with the price controls issued by the Economic Department in the Ministry of Industry and Minerals, as based on the cost accounts department at the company's headquarters, a pricing form is prepared based on the technical equation of the model shown in Table (9), which includes the model requirements of materials Raw materials and auxiliary materials, and the price of raw materials is determined based on the price in the store card, as the prices are determined according to the basis of the weighted average of the prices of materials in the stores in addition to wages and costs of production service centers as a percentage of direct wages and costs of marketing centers as a percentage of the costs of direct wages and non-industrial costs Direct as well as for administrative costs, they are calculated as a

percentage of direct wage costs and indirect industrial costs.

And then determines the price of the model and then submits the proposal to the general administration at the company's headquarters to approve the price, and sometimes the Ministry's approval is obtained on the price. Commenting on the shortcomings of the company's cost system.

Some typical models have been selected for the purpose of calculating their prices according to the mechanism in force within the company. The form in Table (8) shows the model planning form and how to determine the technical equation for a long sheepskin female model (which represents the standard quantities of raw materials and raw materials required for the production of the single girdle), and in Table (9) shows the price of leather clothing for factory products. As for the profit margin, it is determined according to rates ranging between (10%-25%) within the instructions approved by the senior management. The percentage is determined by the pricing committee based on the cost of the product and the demand for it. If the cost is high, it takes a lower percentage, but if the cost is lower, it takes a higher percentage. As for the demand, if the model has a high demand, a margin of close to 25% is determined, and in cases where the demand is very little, the margin is determined at low rates to ensure appropriate prices. Cost and cost accountant The sales agents' commission is added at rates ranging between (10-12)% of the model price, and this percentage varies from one region to another, in the southern and northern regions it is greater than the central regions.

Table (8) Model layout

Factory: leather clothes, model: long sheepskin coat for women

Model Form (Technical Formula) Model Number:

No	Subject Name	Unit	Quantity
1.	sheepskin	Foot	52
2.	goatskin	fat2	-
3.	Fabric lining	m2	5.2
4.	Zipper 90 cm	Number	-

5.	Zipper 20 cm	Number	-
6.	Zipper 18 cm	Number	-
7.	Roll Zipper	cm	-
8.	cloud hand	Number	-
9.	8 cm wide plastic	cm	-
10.	Sponge epaulettes	Husband	1
11.	Big capsule punch	Number	-
12.	small plastic tamper	Number	-
13.	Plastic bag for the pocket	Number	-
14.	histological mark	Number	1
15.	reinforcement cloth	m2	7.0
16.	24/3 . nylon thread	meter	400
17.	latex gum	grumble	100
18.	ni brin gum	grumble	50
19.	Textile tag for lining	Number	1
20.	manufacture mark	Number	1
21.	measuring label	Number	1
22.	button tray 7 large pieces	Number	5
23.	Non-woven lining	m2	5.0
24.	button bowl 7 small pieces	Number	6

Source / records of the General Company for Leather Industries - Department of Cost

Table (10) The costs of the basic model of the female hoodie Ministry of Industry and Minerals General Company for Leather Industries  
Product name: Men's long sheepskin coat  
Model: z/1

Article details	standard unit	Quantity	price		the value	
			Dinar	fiis	Dinar	fiis
sheepskin	feet2	50	400	2036	-	101820
lining fabric	m2	7.2	-	1000	-	2700
Zipper 90 cm	Number	1	429	-	429	-
8 cm wide plastic	M	50 cm	338	837	669	418
epaulettes	Husband	1	690	998	690	998
plastic bruise	Number	1	075	2	075	2
histological mark	Number	1	055	-	055	-
reinforcement cloth	m2	7.0	926	337	548	236
string	M	400	940	2148	830	343
latex gum	grumble	75	526	1648	339	126
neoprene gum	grumble	25	690	2998	967	74
Textile tag for lining	Number	1	-	1	-	1
manufacture mark	Number	1	-	77	-	77
measuring label	Number	1	055	-	055	-
4 piece tray	Number	6	840	82	040	497
Non-woven lining	m2	2.0	834	912	567	182

Total material cost					345	107478
wages	It is determined by dividing the monthly wages of workers ÷ the amount of production				-	4830
industrial expenses	It represents 70% of wages				-	3381
Administrative and marketing expenses	It represents 67% of wages + industrial m				370	5501
Total production costs					715	121190
Profit margin	15% of the costs				285	17809
Make (sale) price					-	139000

Source/ records of the General Company for Leather Industries

From the foregoing it is noted that the General Company for Leather Industries relies on the pricing method based on cost in addition to a profit margin in determining the prices of its products, and this requires the provision of highly accurate information in determining the costs of these products.

The cost determination system in the company in general and the laboratory in particular did not work to determine the costs of each product on the basis of which the products are priced by adding a certain profit margin, but the cost of each model is determined through the technical equation and the pricing form mentioned above, and this does not give accurate results for costs. Thus, it leads to incorrect decisions.

Seventh: Determining a cost vector cost rate

This step represents the product of each activity divided by the cost vector quantity for the activity as shown in Table (11).

Ninth: Calculating the transfer price based on activities

Under this paragraph, the impact of the application of the ABC system on the transfer price and its reflection on the accuracy of the cost data on which the product cost is calculated will be determined. Explains the process of calculating the conversion price based on activities.

The cost of one unit of the product was converted in dm<sup>2</sup> by extracting the average lashes in feet. By looking at the monthly reports issued by the tanning center, it was found that lashes are of different sizes, so the center adopted a rate of 4.4 feet/skin, and the foot was converted, which is equal to 9.29 dm<sup>2</sup> and accordingly it was divided. The average router cost per hour on 40.876 (4.4 x 9.29) to extract the unit cost rate in dm<sup>2</sup> as shown in Table (11).

**(Table 11)**  
**Activity-based transfer price calculation**

Activity name	Cost prompt	total cost	wave quantity	Average cost per hour	Average cost of fat <sup>2</sup>
Leather preparation activity	0.68548	41955250	1493100	28.02	0.68548
twist activity	2.09511	38300558	442400	85.64	2.09511

Enlightenment and welding activity	0.89392	24577564	663600	36.54	0.89392
Nora removal activity	12.38697	28023436	55300	506.33	12.38697
fat removal activity	11.04511	19003374	41986	451.48	11.04511
tanning activity	0.86089	22205316	629790	35.19	0.86089
tanning activity	0.97905	17847538	444769	40.02	0.97905
Al-Asr and Al-Fath activity	2.17609	5060586	56779	88.95	2.17609
drying activity	0.96340	4497494	113558	39.38	0.96340
moisturizing activity	2.87625	4950200	37853	117.57	2.87625
smoothing activity	3.82375	4618034	28389	156.30	3.82375
dye activity	0.45234	22262450	1202366	18.49	0.45234
Ancillary services activity	0.03718	1848248	1202366	1.52	0.03718
public service activity	119.73285	1017504	164	4894.20	119.73285
Activity-based transfer price					129334

Source: Prepared by the researcher based on company records.

Therefore, the application of the ABC system in the tanning center has provided a fair product cost for the center's products due to the identification and analysis of the activities in this center and the diagnosis of those activities that add value and those that do not add value, and each activity bears the costs it deserves, which helps to determine a transfer price based on A fair total cost, and this helps the managers of profitability centers to take the right decisions and evaluate the performance of these centers due to their adoption of the basis of activities, which provides better information for managing costs for those activities, and this helps to identify activities with high costs and then take the necessary steps to reduce them in the future. For the activities led to the reduction of the transfer price approved in the company for the small tanning center to 129,334 as a result of the new calculation of costs.

The researcher believes that the company is the sample of research in the case of re-designing the manufacturing processes and developing the production stages by introducing modern equipment and providing quick and detailed information about the activities through the use of computers, which provides more accurate

information about the activities and their managements that will lead to lower costs and as a result create better competition.

#### **Fourth topic: conclusions and recommendations**

##### **First: the conclusions**

1. Increasing the effectiveness and adequacy of the economic unit and achieving its general objectives is through the application of the responsibility accounting system, so that the economic units have the ability to continue and keep pace with the rapid developments that occur in all fields, making them compelled to develop their administrative and accounting systems and to find quick alternatives to the traditional systems that It has proven its weaknesses today.
2. The process of determining responsibility centers depends on the type of activities that the person responsible for performance controls and on the extent of the powers and authorities granted to him, as well as on the size of the economic unit. Accordingly, the conditions that must be met when determining responsibility centers differ according to the different types of these centers.

3. Through the results in the practical side, it was found that the determination of profits depends on the controlled contribution, which is the appropriate concept of evaluation, which would achieve a sense of justice among the managers of responsibility centers.
4. The application of the ABC system in the small tanning center in the laboratory, the research sample provided the cost of a product that returned to him for the products of the center due to the identification and analysis of the activities in this center and the diagnosis of those activities that add value and those that do not add value, and each activity bears the cost it deserves, which helps To determine a transfer price on the basis of a fair total cost, which helps the managers of profitability centers to take the right decisions and evaluate the performance of these centers due to its adoption of the basis of activities, which provides better information for managing costs for those activities.
4. The necessity of evaluating the performance of the responsibility centers in the company, the research sample, because this process provides indicators of the reality of the performance of these centers, which collectively constitute the performance of the company.
5. Adjusting the values of fixed assets at the modified historical cost when evaluating the performance of profit centers, bearing in mind that it is better to use the current cost that the company can obtain from the market by following scientific and practical methods and according to its available capabilities.

### References

### Second: Recommendations

1. The fluctuations in foreign exchange rates in the countries hosting the investment have repercussions on the conversion rates that must be taken into account from the profit centers of the economic units.
2. Studying the reality of the performance of profit centers, as shown by the results of the research, for the purpose of diagnosing the efficient and effective centers in performing their duties from those that showed the results that there are shortcomings and inefficiencies in their performance for the purpose of determining the causes of these failures and their remedies.
3. The necessity of re-designing manufacturing processes and developing production stages in the laboratory. The research sample by introducing modern equipment and providing quick and detailed information on activities through the use of computers, which provides more accurate information for activities and their managements that will lead to lower costs and thus establish better competition.
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