Nessle Chocolate Corporation

La Nessle Chocolate Corporation runs two subsidiaries defined as profit centres: Chocolate Bar Company and NutFarm. The transfer between the two subsidiaries are not mandatory. Each profit centre is evaluated on their profit and its manager is rewarded if profit target is achieved. Chocolate Bar Company normally buys its chocolate basic component from a Nutfarm competitor. The following data are available relating the two divisions.

Nutfarm Division

Production: 1000 units each month sold to outside customers
Capacity: 1500 units month
Normal variable costs:

- Standard production cost per unit: $10
- Other variable cost per unit: $9
- Total: $19

Internal variable costs (for transfers):

- Production cost per unit: $8
- Other variable cost per unit: $7,50
- Total: $15,50

Selling price to outside customers: $30 per unit

Chocolate Bar Division

Purchasing price from outside supplier: $27,50
Other production variable costs: $14
Selling price: $60

1. **Define the transfer pricing matrix in order to provide the relevant information for transfer decision (analyze both the situations of available capacity and no capacity in excess)**
2. **Should the profit centres' managers decide to carry out the internal transfer?**
3. **If the superior limit is used as transfer price which is the impact on divisions' profit?**
4. **If the inferior limit is used as transfer price which is the impact on divisions' profit?**
5. **Calculate the divisions' profit using the average price.**
6. **What about the Nessle Chocolate Corporation profit?**