

ACCOUNTING

in the headlines

Now that Dyson owns a battery firm, how will the transfer price for batteries used in its vacuums be determined?

[Dyson](#), the vacuum cleaner manufacturer, recently made a large investment in a battery technology firm, [Sakti3](#). Sakti3 is a Michigan-based startup that is working on a solid-state battery. These solid-state batteries would last approximately twice as long as current lithium-ion batteries. Solid-state batteries also do not use liquid electrolyte, the lithium-ion substance that can cause fires. The solid-state battery technology has not yet been perfected, but Dyson has made the gamble that it will be able to use these batteries in its products (including hand-held vacuums) within the next few years.

Dyson plans to build a large battery factory for Sakti3 to produce these solid-state batteries. In addition to batteries for its hand-held vacuums, the factory will manufacture batteries for a wide variety of household products and for electric vehicles. When it moves into producing batteries for electric cars, Sakti3 will be competing with companies such as Tesla Motors, Panasonic, and LG Chem.

Questions

1. Between Dyson and Sakti3, which is the selling division and which is the buying division with respect to solid-state batteries and transfer pricing?
2. Assume that the battery factory has been built in Michigan and is producing a variety of batteries that can be used both in Dyson's hand-held vacuums and in other companies' vacuums. List as many costs as you can imagine that might be incurred by the factory in the production of the batteries.
3. If Dyson uses "cost" as the basis for the internal transfer price for the Sakti3 batteries to be used in its hand-held vacuums, what costs (from the list in the preceding question) do you think should be included in the transfer price? Explain.
4. Do you think that Dyson will determine the internal transfer price for its batteries using market price, negotiated price, or cost? What assumptions do you have to make to answer this question?