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NetSuite Intercompany Inventory Transfers: Cost or Arm's Length?

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Executive Summary

A **NetSuite OneWorld** group that replenishes one subsidiary's warehouse from another has two documented routes. Oracle documents the intercompany transfer order for non-arm's length moves (docs.oracle.com), and a separate intercompany purchase order and sales order flow, with fulfillment, receipt, billing and elimination, for arm's length moves (docs.oracle.com). The choice is a legal and tax policy decision first and a configuration decision second. The arm's length principle is described by the OECD as the international consensus on valuing cross-border transactions between associated enterprises (www.oecd.org), and no NetSuite setting establishes that a given price satisfies it. Qualified tax and accounting advisers must set the policy before warehouse replenishment is configured.

This report tests both flows in one **fictional scenario (Hypothetical Example)**: 1,000 units with a source cost of $60.00, moved at cost in one case and priced at $80.00 in the other, with 600 units sold externally for $110.00 and 400 left on hand. The at-cost transfer order books no cost of goods sold (COGS) in the source subsidiary. The priced flow books $20,000 of intercompany gross profit in the source and, with a destination standard cost of $75.00, a $5,000 purchase price variance (PPV). The consolidated elimination that reconciles the two sets of books is $6,000 of inventory, not the $8,000 a simple markup-times-units shortcut suggests. The elimination principle is that intra-entity profit on assets remaining in the group is removed (viewpoint.pwc.com) (www.ifrs.org).

Configuration prerequisites differ. Intercompany transfer orders are OneWorld-only and need Multi-Location Inventory. The arm's length flow sits under Automated Intercompany Management, which requires OneWorld and one or more elimination subsidiaries and requires the Use Item Cost as Transfer Cost preference to be off (docs.oracle.com). Oracle's record-reference pages word that preference differently for the transfer order, so a sandbox test of the exact configuration is a prerequisite, not an option. Oracle documents revaluation of period-end inventory and COGS for the arm's length flow, but the reviewed pages give no account-level arithmetic for unrealized inventory profit, so the amount should be proven in testing.

Tax and customs context raises the stakes. The US federal corporate rate is 21 percent (www.law.cornell.edu), the OECD's 2026 average statutory rate across 146 jurisdictions is 21.2 percent, and 11 jurisdictions have no corporate income tax or a zero statutory rate (www.oecd.org). Related-party trade was 42.8 percent of US goods trade in 2025 (www.census.gov). Customs value and income tax price are separate questions, and a transfer pricing study alone does not establish customs acceptability (cbp.gov). The close controls that follow from this are an intercompany reconciliation before elimination, in-transit and clearing rollforwards, and user acceptance testing (UAT) cases for returns, partial receipts, foreign exchange (FX) and multi-book exceptions. Figures here are illustrative and as of November 2026.

Introduction and Background

Moving inventory from a source warehouse to a destination warehouse in another legal entity looks like an operations event, but it is also an intercompany transaction with tax, customs and consolidation consequences. The finance owner must decide what the transaction is: a cost-based reallocation of the group's stock, or a sale between related entities at a price that an adviser can defend. NetSuite supports both

patterns, with different records, general ledger (GL) postings and elimination behavior. The wrong flow rarely fails at entry; it shows up later as an unreconciled clearing balance, an unexplained variance or a margin never removed from consolidated inventory.

This report is written for chief financial officers, controllers, tax owners, operations leaders and OneWorld architects. Its distinctive angle is a decision and evidence workbook for warehouse-to-warehouse moves: it starts from legal entity and ownership flow, shows source and destination postings, and then follows in-transit value, PPV, intercompany clearing and unrealized margin elimination through a single fictional scenario. Existing practitioner guides cover intercompany setup, eliminations and transfer pricing documentation broadly, for example the Broken Rubik overview, which recommends dedicated accounts used exclusively for transactions between entities (www.brokenrubik.com) and a documented method for each type of intercompany transaction (www.brokenrubik.com).

Scope matters. A physical replenishment transfer differs from customer-order cross-subsidiary fulfillment, where Oracle documents that a single sales order can be fulfilled from locations in multiple subsidiaries. The second pattern starts with a customer order and is outside this report; here no customer order exists yet.

Three terms recur. **Intercompany transfer order** is the NetSuite record Oracle documents for moving and tracking inventory between subsidiary locations in OneWorld accounts, a feature that an accounting firm describes as meant to transfer inventory between subsidiary locations within a company (citrincooperman.com). **Arm's length** means priced as independent parties would price; the term is defined by tax rules, not by NetSuite. **Unrealized margin** is the intercompany profit still sitting in inventory the buying entity has not yet sold outside the group (timdietrich.me). All amounts in worked examples are fictional and illustrative; they must be validated in a configured sandbox before use. Where Oracle's own pages differ in wording, this report says so and attributes the resolution to policy, data or configuration testing rather than to any product defect. This article is general information, not tax or accounting advice; groups should consult qualified tax and accounting advisers before adopting an intercompany pricing or inventory policy.

Key Changes Between the Two Flows

Policy and the Economic Transaction

The first change between the flows is conceptual: what the transaction is. The OECD's Transfer Pricing Guidelines describe the arm's length principle as the international consensus on valuing cross-border transactions between associated enterprises (www.oecd.org), and name paragraph 1 of Article 9 of the OECD Model Tax Convention as its authoritative statement (www.oecd.org). The US Internal Revenue Service (IRS) describes the equivalent domestic rule as requiring affiliate prices on transfers of goods, services or intangibles to yield results consistent with uncontrolled taxpayers (www.irs.gov), and the statute allows income to be reallocated among commonly controlled businesses to clearly reflect income (www.law.cornell.edu). Canada's Revenue Agency states that its legislation requires transactions with non-arm's-length parties to be priced on arm's length terms (www.canada.ca), and the UK tax authority frames the principle by reference to the profit that would have arisen between unconnected parties (www.gov.uk).

NetSuite's vocabulary overlaps with, but is not identical to, these tax concepts. Oracle uses "non-arm's length" to label the transfer order flow. A practitioner summary of that flow says profits are not considered when determining the transfer price (technologyblog.rsmus.com), and that the price on the order is used as cost when the relevant setting applies (technologyblog.rsmus.com). Whether a cost-based move between particular entities is acceptable to the relevant tax authorities is a question for the group's advisers; the label describes how the software treats the transaction, not what a tax authority will conclude. Likewise, an accounting consolidation elimination does not replace transfer pricing compliance (timdietrich.me), which one NetSuite guide calls critical for tax compliance when related entities trade (www.brokenrubik.com).

Ownership timing is the second policy question. On an intercompany transfer order the incoterm decides it: ownership can transfer at the time of shipping or the time of receipt, and a consulting firm explains that incoterms determine the point at which ownership of items is transferred between locations (technologyblog.rsmus.com). Under Delivered at Place (DAP) the destination takes ownership on receipt (docs.oracle.com), and under Ex Works (EXW) it assumes ownership on item fulfillment (docs.oracle.com), which the same consulting firm describes as transfer at the shipping point (technologyblog.rsmus.com). In the arm's length flow Oracle states that ownership passes from the source to the destination subsidiary when the order is fulfilled. The ownership event drives which subsidiary carries in-transit stock and when intercompany clearing accounts move; a practitioner post notes that DAP affects the intercompany clearing account on receipt (technologyblog.rsmus.com).

Document Chain and Prerequisites

The cost-based flow is lighter. Intercompany transfer orders are available only in OneWorld accounts (docs.oracle.com) and transfer orders require Multi-Location Inventory (docs.oracle.com). Oracle describes the record as enabling users to track items in transit between the two subsidiary locations, a description echoed by RSM US (technologyblog.rsmus.com). The chain is transfer order, item fulfillment and item receipt.

The arm's length flow has more moving parts. Automated Intercompany Management requires OneWorld and a subsidiary hierarchy with one or more elimination subsidiaries under the root (docs.oracle.com). Intercompany accounts receivable and payable need an intercompany customer or vendor representing each subsidiary, a point a NetSuite advisory blog repeats (technologyblog.rsmus.com). The intercompany purchase order and sales order are paired one to one, the sales order must be generated from the Manage Intercompany Sales Orders page, and the purchase order itself is a nonposting transaction, so the first GL effects arrive with fulfillment and receipt rather than with the order; at receipt, in-transit inventory reduces by the amount of the purchase order (technologyblog.rsmus.com).

One configuration point needs explicit testing. For the arm's length flow, Oracle states that the transfer order preference must not be enabled. For the transfer order itself, Oracle's SOAP record page says orders can be entered when Use Item Cost as Transfer Cost is enabled (docs.oracle.com), while the SuiteScript record page says intercompany transfer orders are only available when transfer pricing is used (docs.oracle.com), and the user page says the order uses transfer cost instead of item cost for costing calculations. Partial fulfillment is likewise described differently on different pages. These differences are best read as dependence on configuration, and are resolved in a sandbox with the exact preference, costing method and incoterm the group intends to use.

Costing and Transfer Price Mechanics

On the transfer order, Transfer Price defaults from the item record in the root parent subsidiary currency and converts to the source subsidiary currency (docs.oracle.com). With the preference cleared, an order with no price records no cost on the item receipt, and the receipt cost is based on the transfer price. Any difference between actual cost and transfer price posts to a Gain/Loss account when the item ships (docs.oracle.com). For standard-cost items, the source location's standard cost is the transfer cost when the preference is set.

Costing method changes the numbers. Average costing is the NetSuite default (docs.oracle.com); under standard costing the receipt cost is fixed, purchase price variances can post on transfer order receipts as well as purchase receipts, and a Gain/Loss value is generated from the difference between transfer price and the source standard cost. Under International Financial Reporting Standards (IFRS), inventories are measured at the lower of cost and net realisable value (www.ifrs.org), and cost formulas for interchangeable items are first-in, first-out or weighted average (www.ifrs.org).

In the arm's length flow, Oracle requires the item rate or transfer price to be the same on all transactions in the chain (docs.oracle.com), which makes price governance a master-data control.

Elimination Behavior

Oracle states that the Automated Intercompany Management feature covers arm's length inventory transfers and automatically revalues period-end inventory and COGS (docs.oracle.com). Intercompany inventory transfers and drop shipments are identified for elimination by default, and a consulting firm notes the feature can generate elimination journal entries automatically (technologyblog.rsmus.com). For arm's length transfers, the Eliminate Intercompany Transactions box on the COGS account must not be checked (docs.oracle.com), and intercompany clearing accounts are not returned to zero by elimination (docs.oracle.com). For the cost-based flow, Oracle states that NetSuite eliminates the gain or loss amount when elimination runs (docs.oracle.com). Elimination is typically run as a period-close step.

The reviewed pages do not set out, account by account, how unrealized profit in unsold inventory is calculated for each flow. One NetSuite guide says the elimination is typically calculated manually or via a saved search (timdietrich.me), and another treats markup on intercompany inventory as a manual scenario in which the unrealized profit must be eliminated from consolidated inventory (www.brokenrubik.com). The worked scenario below therefore derives the expected consolidated result independently and uses it as the acceptance target for any automated elimination. Elimination entries sit in a special elimination subsidiary type that holds them and appears only in consolidated reports (timdietrich.me).

Table 1 below summarizes the policy-to-flow decision matrix.

Decision point	Cost-based intercompany transfer order	Arm's-length intercompany PO/SO flow
Oracle's documented use	Non-arm's length moves between subsidiary locations	Arm's length transfers under Automated Intercompany Management
Document chain	Transfer order, item fulfillment, item receipt	Purchase order, generated sales order, fulfillment, receipt, vendor bill, invoice, elimination

Decision point	Cost-based intercompany transfer order	Arm's-length intercompany PO/SO flow
Price field	Item-record Transfer Price in root parent currency	One item rate on all transactions
Source income statement	No COGS posted by the transfer order	COGS and intercompany revenue per Oracle's example postings
Ownership event	Incoterm, shipping or receipt	Source to destination on fulfillment
Elimination setting	Gain/Loss amount eliminated when flagged	COGS elimination box not checked
Use when the approved policy says	No margin is earned in the source entity on the move	A priced intercompany sale, with documentation, is required

The two flows are not interchangeable settings of one process: they differ in document count, price governance and elimination configuration. The last row is phrased in terms of approved policy because the decision belongs to the tax owner and advisers, not the system administrator.

Implementation Considerations and Process Changes

Prerequisites, Item, Currency and Permission Design

Configuration should follow the policy memo, not precede it. The checklist below reflects the documented requirements and open questions.

- **Platform features:** OneWorld and Multi-Location Inventory for transfer orders; Automated Intercompany Management with elimination subsidiaries for the arm's length flow.
- **Transfer Orders preference:** set Use Item Cost as Transfer Cost deliberately and record it in the design document, since the arm's length flow requires it to be off.
- **Item availability and price:** an inventory item must be accessible to both subsidiaries, and a blank item Transfer Price becomes 0 on the order.
- **Currency:** the item price is held in root parent currency; the arm's length flow uses the purchase order's base currency.
- **Permissions:** entering an intercompany transfer requires access to the source subsidiary and location and to the common parent of both subsidiaries, so roles should be designed per subsidiary pair.

The group should keep one item-price source of truth. Operational transfer pricing, which advisers describe as aligning intercompany transaction processes with transfer pricing policy, aims at the same outcome (kpmg.com), and standardized accounting policies, charts of accounts and timelines across entities are a recommended first step (www.nexdigm.com).

Fictional Event-to-Record Swimlane (Hypothetical Example)

The scenario assumes a source subsidiary (S) and a destination subsidiary (D) with the same base currency, so that FX can be isolated later. S holds 1,000 units at an average cost of $60.00. The at-cost policy moves them at $60.00. The priced policy moves them at $80.00, a 33.3 percent markup on cost or a 25 percent margin on price. D's standard cost is $60.00 under the at-cost policy and a stale $75.00 under the priced policy, which is how a PPV typically arises. D later sells 600 units outside the group at $110.00 and holds 400. The priced-flow postings follow the structure of Oracle's published example, in which the destination's receiving standard cost differed from the transfer price and each posting transaction carries its own GL impact. The at-cost postings follow Oracle's description of fulfillment moving value from Inventory Asset to Inventory in Transit (docs.oracle.com) and GL impact after receipt (docs.oracle.com). Account labels differ between Oracle pages, so every posting is illustrative and must be validated in the sandbox.

Table 2 below sets the events against both flows and both subsidiaries.

Event	At cost: S ledger	At cost: D ledger	Priced: S ledger	Priced: D ledger
Fulfillment of 1,000 units	Dr Inventory in Transit 60,000 Cr Inventory Asset 60,000	None under DAP	Dr COGS 60,000 Cr Inventory Asset 60,000	Dr Inventory in Transit 80,000 Cr Intercompany Clearing 80,000
Receipt	Dr Intercompany Receivable/Clearing 60,000 Cr Inventory in Transit 60,000	Dr Inventory Asset 60,000 Cr Intercompany Payable/Clearing 60,000	None	Dr Inventory Asset 75,000 Dr PPV 5,000 Cr Inventory in Transit 80,000 Dr Intercompany Clearing 80,000 Cr Accrued Purchases 80,000
Billing	None	None	Invoice: Dr Intercompany A/R 80,000 Cr Intercompany Revenue 80,000	Bill: Dr Accrued Purchases 80,000 Cr Intercompany A/P 80,000
External sale, 600 units	None	Dr COGS 36,000 Cr Inventory Asset 36,000	None	Dr COGS 45,000 Cr Inventory Asset 45,000
Period-end position	Receivable 60,000 offsets D payable	Inventory 24,000	IC revenue 80,000 and A/R 80,000 to eliminate	Inventory 30,000 vs group cost 24,000

The swimlane makes two points visible. First, the at-cost flow creates no profit anywhere in the group, so only the receivable and payable pair needs netting. Second, the priced flow creates profit in S that is partly still embedded in D's unsold stock, and a variance in D that exists only because the intercompany price differs from D's standard. Both effects must be handled in consolidation.

Transfer Price, Customs and Tax Questions for Advisers

Only advisers can answer the following, and the questions should be put to them before configuration. The OECD recognizes the comparable uncontrolled price method, the resale price method and the cost plus method among its pricing methods (www.oecd.org), and says no one method is suitable in every possible situation (www.oecd.org). Under the cost plus method the analysis begins with the costs incurred by the supplier (www.oecd.org). The US regulations require the arm's length amount for a controlled transfer of tangible property to be set under one of six listed methods (www.law.cornell.edu), observing that identical transactions can rarely be located (www.law.cornell.edu). A policy of "transfer at cost" is therefore a pricing method choice that must be justified and documented, not a default.

Documentation follows the method. The OECD master file provides a high-level view of the group (www.oecd.org), and the US penalty-protection regulations expect a description of the method selected and why it was selected (www.law.cornell.edu). In Canada the amended transfer pricing rules apply to taxation years beginning after November 4, 2025 (www.canada.ca), and the documentation timeframe on request has been reduced from three months to 30 days (www.canada.ca). Advisers should confirm which rules, including the current Canadian documentation timeframe against up-to-date CRA guidance, apply in each jurisdiction in the group.

Customs is a separate lens. The World Trade Organization (WTO) accepts the transaction value between related parties if the importer demonstrates that the relationship did not influence the price or that the value closely approximates a test value (www.wto.org). US Customs and Border Protection (CBP) lists settling the price consistent with normal pricing practices as one circumstance showing no influence (cbp.gov). CBP also notes that an advance pricing agreement or transfer pricing study by itself is not sufficient to show that a related-party transaction value is acceptable (cbp.gov), that customs value must be determined for every imported article (cbp.gov), and that importers with complicated issues may obtain advice from an expert who specializes in customs matters (cbp.gov). The OECD observes that taxpayers may have competing incentives in setting customs and tax values (www.oecd.org); a practitioner analysis adds that a higher transaction value raises duty liability (www.bdo.com), and recommends having documentation in place before the import transaction (www.bdo.com). Duties are assessed at the product level while income taxes are assessed at the enterprise level (www.pwc.com).

Questions for advisers:

- **Method and price:** Is cost, cost plus or a comparable price the approved basis per item family and route?
- **Entity roles:** Which entity bears inventory risk in transit, and does the incoterm match?
- **Customs value:** Does the invoice price support the customs declaration, and who owns true-ups?
- **Documentation:** Which files must exist before the first shipment, and what are the local deadlines?

In-Transit, Variance, Clearing and Profit Elimination Controls

Four balances need a rollforward each period: quantity in transit, value in transit, intercompany clearing, and unrealized margin. For the fictional scenario, assume S holds additional stock beyond the 1,000 units in Shipment A, and that a second shipment, Shipment B, of 300 units is fulfilled from that stock on the last day of the period and received in the next. This rollforward is a separate illustration from Table 4, and the $6,000 of in-

transit unrealized margin below (300 units x $20) is unrelated to the $6,000 on-hand excess in Table 4. Receipt quantity must match fulfillment quantity, so Shipment B is a separate fulfillment and receipt, not a partial receipt of Shipment A. While the goods are in transit, the units are counted with the inventory of the source location.

Table 3 below shows the rollforwards at period end.

Balance	Opening	Fulfillment	Receipt	Closing	Control note
Quantity in transit, both flows	0	+300 units	0	300 units	Ties to Transfer Order Register and Snapshot report
Value in transit, at cost (S carries it)	0	+$18,000	0	$18,000	Valued at $60.00
Value in transit, priced (D carries it)	0	+$24,000	0	$24,000	Valued at $80.00; $6,000 above group cost
Intercompany clearing, at cost under DAP	0	0	0	0	Clearing moves on receipt; EXW would move it at fulfillment
Intercompany clearing, priced (D)	0	Cr $104,000 (A and B)	Dr $80,000 (A)	Cr $24,000	Equals priced value in transit
Unrealized margin, priced	0	$6,000 in transit	0	$6,000	Eliminate at consolidation

In the priced flow the clearing credit should equal the in-transit value at transfer price, which exceeds group cost by the markup on units still moving. The incoterm moves the at-cost clearing entry: a practitioner post notes that DAP affects the intercompany clearing account upon receipt (technologyblog.rsmus.com), whereas EXW places ownership with the destination at fulfillment. Oracle reporting supports the tie-out: the Transfer Order Register lists orders with number, status and amount, and the Current Inventory Snapshot has an In Transit column.

Reconciliation should be frequent. A practitioner guide recommends running the intercompany reconciliation weekly, not monthly (www.brokenrubik.com); another advisory firm notes that intercompany differences are among the most common reasons for close delays (www.nexdigm.com) and that regular reconciliation lets finance teams identify and resolve discrepancies early (www.nexdigm.com), while a NetSuite partner notes that OneWorld allows intercompany balances to be tracked continuously rather than at period end (www.anchorgroup.tech). Oracle's own control is the Intercompany Reconciliation Report, which should be run before month-end elimination (docs.oracle.com). The same report page notes that stock transferred but not fully consumed requires manual inventory balance adjustment, the practical link to the unrealized margin row above.

The consolidated profit bridge is the core evidence. *Table 4* below summarizes it for the fictional figures.

Line (Hypothetical Example)	At cost	Priced
Source cost of 1,000 units	$60,000	$60,000

Line (Hypothetical Example)	At cost	Priced
Transfer value	$60,000	$80,000
S intercompany gross profit	$0	$20,000
D receipt: inventory plus PPV	$60,000 plus $0	$75,000 plus $5,000
D COGS, 600 units sold	$36,000	$45,000
D ending inventory, 400 units	$24,000	$30,000
Combined profit (S plus D, after $66,000 external sales)	$30,000	$36,000
Group cost of 400 units on hand	$24,000	$24,000
Carrying excess to eliminate	$0	$6,000
Markup shortcut: 400 units x $20	not applicable	$8,000 (over-eliminates $2,000)
Consolidated profit	$30,000	$30,000

The bridge shows that the policy changes where profit appears, not the group's profit: both flows reach $30,000 on consolidation. In the priced flow the consolidation entry is Dr Intercompany Revenue $80,000, Cr COGS $69,000, Cr PPV $5,000, Cr Inventory $6,000; after it, revenue is $66,000, COGS is $36,000, PPV is zero and inventory is $24,000. The entry follows the logic of the accounting standards: a buyer's inventory includes the seller's profit (viewpoint.pwc.com), and a consolidating entry removes intercompany sales and the income in inventory not yet sold (viewpoint.pwc.com). The shortcut of applying the $20 markup to 400 units over-eliminates because the destination had already expensed $5 per unit of PPV at receipt. The correct figure is the carrying amount minus group cost, $30,000 less $24,000. If D writes the stock down, the profit eliminated is reduced accordingly (viewpoint.pwc.com). The consolidation also requires intercompany inventory records to support the calculation (viewpoint.pwc.com).

Returns, Partial Receipts, FX and Multi-Book Exceptions

Returns. Oracle documents the return process for an arm's length transfer as reversing the original transfer transaction; the source subsidiary's return authorization is generated automatically from the destination's vendor return authorization (docs.oracle.com). The reviewed pages describe no equivalent return for the cost-based transfer order, so test a reverse transfer order in the sandbox or document a manual procedure.

Partial fulfillment and receipt. The behavior depends on configuration, as noted earlier. A transfer order line can be closed only if the in-transit quantity is zero, so any cancelled remainder is closed after the in-transit quantity is received or otherwise cleared.

Foreign exchange. Oracle warns that the exchange rate between subsidiaries can affect the GL impact of a transfer order on each subsidiary. For consolidation, US GAAP guidance as presented by PwC states that eliminated intra-entity profit is based on the exchange rates at the dates of the transfers (viewpoint.pwc.com), that later rate changes should not impact the amount of intercompany profit eliminated (viewpoint.pwc.com), and that the cost component of the buyer's inventory is translated at the period-end rate (viewpoint.pwc.com). In an illustration (Hypothetical Example) with D reporting in Canadian dollars at 1.35 on the transfer date and

1.40 at period end, the $6,000 margin is eliminated at 1.35, or CAD 8,100, whatever the closing rate. NetSuite posts foreign currency differences between the originating entry and the elimination entry to a cumulative translation adjustment elimination account, and elimination can run only after open foreign currency balances are revalued. Intragroup monetary items are the standard exception to full elimination, because currency fluctuations must still show in consolidated results (www.ifrs.org).

Multi-book. If one subsidiary is not in a secondary book, only half the GL impact of a transfer order is posted for that book (docs.oracle.com). If a secondary book exists in the source but not the destination, the destination does not post a cost at transfer time. By default, multi-book consolidation runs only in the primary book, so each secondary book needs its own elimination test.

Close Worksheet, Owner Sign-Off and UAT Cases

Table 5 below combines the close worksheet with UAT cases and assigns an owner to each.

ID	Control or UAT case	Evidence	Owner
1	Approved policy memo selects flow per route	Adviser-signed memo, method and incoterm	Tax owner
2	Preference, incoterm, costing method and item transfer prices (blank is 0) configured as designed	Configuration export and item price report	NetSuite administrator
3	At-cost happy path: $60,000 each side, clearing nets to zero	Posting listing per subsidiary	Controller
4	Priced happy path: S profit $20,000, D PPV $5,000	Posting listing and variance report	Controller
5	In-transit tie-out to Transfer Order Register	Rollforward in Table 3	Operations lead
6	Intercompany Reconciliation Report clean before elimination	Saved report	Controller
7	Elimination run after revaluation matches $6,000 expected	Elimination journal vs Table 4	Consolidation lead
8	Return, arm's length: vendor return authorization path	Reversal postings	Controller
9	Partial receipt and line closure	Status and quantity listing	Operations lead
10	FX case at two rates; CTA elimination reviewed	Elimination journal	Consolidation lead
11	Secondary book case	Book-level postings	Controller
12	Sign-off by tax owner, controller and operations	Signed worksheet	CFO

Cases 3, 4 and 7 are the acceptance tests for the example numbers; cases 8 to 11 are the exception paths where documentation is thinnest.

Data Analysis and Evidence

The quantitative core has two layers: the scenario arithmetic and the external statistics that explain why the policy matters. With 1,000 units, a $60.00 cost, an $80.00 transfer price and a $75.00 destination standard, the markup is $20.00 per unit (33.3 percent on cost, 25 percent of price) and the PPV is $5.00 per unit, or 6.25 percent of the transfer price. The carrying excess to eliminate equals units on hand multiplied by the difference between D's carrying cost and group cost:

- **No units sold:** 1,000 x ($75 minus $60) = $15,000 of excess in inventory.
- **600 units sold:** 400 x $15 = $6,000, the figure used in Table 4.
- **All units sold:** $0 of inventory excess, though the $20,000 source profit and $5,000 PPV still need elimination against revenue and COGS.
- **No PPV (destination standard of $80):** 400 x $20 = $8,000, so the markup shortcut works only when no variance was expensed.

External statistics show why the transfer price is a tax and customs matter and not merely a cost-accounting setting. The US federal corporate rate is 21 percent (www.law.cornell.edu). The OECD's Corporate Tax Statistics 2026 report an average statutory rate of 21.2 percent across 146 jurisdictions (www.oecd.org), with 11 jurisdictions having no corporate income tax or a zero statutory rate (www.oecd.org). The US statute ties accuracy-related penalties to the size of net section 482 adjustments (www.law.cornell.edu), and Canada's transfer pricing penalty is 10 percent of certain adjustments (www.canada.ca). Ireland's standard rate on trading income is 12.5 percent (www.revenue.ie) and Quebec's general provincial corporate rate is 11.5 percent (cdn-contenu.quebec.ca). Statutory rates are not effective rates: the OECD's Pillar Two rules require in-scope groups to pay top-up tax up to a 15 percent minimum (www.oecd.org), with groups below EUR 750 million of consolidated revenue outside the scope (www.oecd.org). As an arithmetic illustration only (Hypothetical Example), recognizing a $20,000 margin in a 21 percent jurisdiction instead of a 12.5 percent jurisdiction changes statutory tax by $1,700 ($20,000 x 8.5 percentage points). That difference is the reason tax authorities test intercompany prices and the reason an adviser must approve the policy.

Scale also matters: related-party trade was 42.8 percent of total US goods trade in 2025 (www.census.gov) and 49.0 percent of imports (www.census.gov), and the OECD calls intra-firm trade a significant share of world trade (www.oecd.org). No public benchmark exists for how many NetSuite customers run each flow.

On the accounting side, the evidence is consistent. Consolidated statements present the assets, liabilities, equity, income, expenses and cash flows of a parent and its subsidiaries (www.ifrs.org), and an International Financial Reporting Standards committee staff paper quotes the requirement to eliminate in full intragroup assets and liabilities (www.ifrs.org). Under US GAAP, intra-entity profit on assets remaining in the group is eliminated and income tax effects continue to be deferred only for intercompany inventory transfers (taxnews.ey.com); a Deloitte summary adds that entities remain prohibited from recognizing the current and deferred tax effects of intra-entity inventory transfers (www.iasplus.com). A Big-4 guide adds that the intercompany profit and related income taxes are normally eliminated in consolidation (viewpoint.pwc.com). The tax owner should confirm the treatment for each framework.

The evidence base is uneven: Oracle Help Center pages are authoritative for features but carry no stated as-of date, while practitioner posts are secondary. Where they differ, Oracle's text governs, and the sandbox governs both.

Implications and Future Directions

Four implications follow. First, policy comes before configuration: the cost-based flow assumes that moving goods at cost is the approved treatment, while the priced flow creates intercompany profit that must be priced, documented and later removed. Second, price governance becomes a master-data process, since Oracle requires the same rate on every transaction in the priced flow and the owner of the item price list is effectively a control owner. Third, close controls should be built around rollforwards, not the elimination run alone; elimination is typically a late period-close step, so everything upstream determines whether it produces a defensible number. Fourth, exception paths (returns, partial receipts, FX and secondary books) deserve test time because documentation is thinnest there.

Regulatory direction adds moving parts: Canada's amended rules took effect for taxation years beginning after November 4, 2025 (www.canada.ca), and the OECD's global minimum tax continues to evolve, so rate and documentation assumptions should be revisited annually. Customs and income tax valuation remain separate processes, which the OECD flags as a source of competing incentives (www.oecd.org). Advisers position operational transfer pricing as a way to reduce true-up adjustments (kpmg.com).

For organizations that lack in-house NetSuite capacity, an implementation partner can help with sandbox configuration, saved searches that compute expected unrealized margin, item price integration and UAT scripts. Houseblend, the publisher of this article, is a Montréal-based NetSuite consultancy and is one example of such a partner; it is not an independent recommendation, and readers should evaluate several providers. The partner role is limited to configuration and testing; transfer pricing policy, customs position and accounting conclusions belong to the group's qualified tax and accounting advisers.

Frequently Asked Questions (FAQs)

What is a NetSuite intercompany transfer order and when is it used?

Oracle documents the intercompany transfer order as the OneWorld record for moving and tracking inventory between subsidiary locations, used for non-arm's length transactions, with in-transit tracking between the two locations.

What are the accounting entries for an intercompany inventory transfer?

At fulfillment the value moves from Inventory Asset to Inventory in Transit for the source location; the receipt then moves it to the destination, and the intercompany GL impact occurs after receipt. The priced flow adds COGS, intercompany revenue, accrued purchases and PPV, as in Table 2; all entries are illustrative.

How does intercompany transfer pricing work in NetSuite?

The transfer price is held on the item record and defaults onto the order in root parent currency. Whether the price is a reference value or a receipt cost depends on the preference setting. Whether the price itself is arm's length is a tax conclusion, not a software outcome.

Should we transfer at cost or at arm's length?

That depends on the approved legal and tax policy. The OECD notes that no one pricing method is suitable in every situation (www.oecd.org), so a cost-based policy must itself be justified and documented. Both flows reach the same consolidated profit in the scenario.

How is a markup set up on intercompany inventory transfers?

Use the arm's length flow with an approved item rate that is the same on every transaction; the markup is that rate minus source cost.

How are eliminations and unrealized profit handled?

Automated Intercompany Management revalues period-end inventory and COGS, but practitioners describe the unrealized-profit calculation as typically manual or search-based. Derive the expected amount independently, as in Table 4, and compare it with the elimination journal.

What is the OneWorld setup for intercompany transfer orders?

OneWorld, Multi-Location Inventory, subsidiaries and locations, item availability in both subsidiaries, and, for the priced flow, Automated Intercompany Management with elimination subsidiaries, as described in the prerequisites above (citrincooperman.com).

Conclusion

The decision between an at-cost intercompany transfer order and an arm's-length intercompany purchase order and sales order flow is a policy decision that happens to be implemented in NetSuite. The at-cost flow keeps profit out of the source entity and leaves a clearing pair to net. The priced flow creates source profit, destination variances and unrealized margin that must be eliminated using the carrying amount, not a markup shortcut. In the fictional scenario both flows end at the same consolidated profit of $30,000, which shows that the choice moves profit between entities and jurisdictions, with tax, customs and documentation consequences that only qualified advisers can settle.

The practical path is to obtain the approved policy, configure the preference, incoterm and item prices to match it, validate every posting in a sandbox, and run the close worksheet with rollforwards for in-transit value, intercompany clearing and unrealized margin. Where Oracle's pages word a setting differently, treat the difference as a configuration question to test. With policy, data and configuration aligned, the intercompany inventory transfer becomes a controlled and auditable close step.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

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Implementation and architecture

Houseblend provides NetSuite implementation, architecture and data migration services. We help teams evaluate how business processes, reporting requirements and existing data should fit together in an ERP environment. Training supports the people responsible for adopting and operating the resulting system.

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Our services include NetSuite integrations and customization, as well as AI integrations and AI transformation work. These engagements connect ERP data and workflows with the broader application landscape. The right design depends on the organization's systems, controls and operating needs.

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