

Case Study: Outsourcing Property Accounting

When considering outsourcing a function, it is essential to consider direct costs as well as other associated costs. This often poses a dilemma due to the way most companies account for costs.

The costs need to be understood in the context of the activities making up the function. Unfortunately most organisations capture costs by type, e.g. salaries, rather than by activity, i.e. activity based costing.

Property Accounting Costs

The process to determine activity-based costs involves the following -

- Identify all activities making up the function, e.g. property accounting
- Determine the activity driver, e.g. % of employees time or % of office space
- Determine the cost of each activity driver
- List the costs related to each activity

Future expected costs of maintaining the process in-house should also be considered.

Other benefits of outsourcing that need consideration are -

- Fixed costs are turned into variable costs
- Reduction of investment into assets, e.g. training employees, computer equipment
- Improving cashflow

Estimated costs associated with one individual performing a property accounting function -

Task	Cost
direct wages	\$45,000
oncost	\$9,000
software annual fees	\$7,000
software maintenance	\$8,000
server software & hardware	\$3,000
cost of a desk	\$15,000
manager's time	\$15,000
productivity costs	\$21,000
TOTAL COST	\$123,000

