



<input checked="" type="checkbox"/>	Master's thesis
<input type="checkbox"/>	Licentiate's thesis
<input type="checkbox"/>	Doctor's thesis

Subject	Accounting and Finance	Date	24.5.2006
Author	Markus Serni	Student number	
		Number of pages	90
Title	ACTIVITY-BASED COSTING IN COMMON COST ALLOCATIONS Case: If P & C Insurance Company – Business Area Commercial		
Supervisors	Ph.D. Hannu Schadewitz, M.Sc. Antti Fredriksson		

Abstract

The object of the thesis was to examine common costs and common cost allocations, and how Activity-based costing could be used as an accounting tool in service sector when allocating common costs. The thesis was carried out as operation analytical case-study where the case company was If P&C Insurance Company. One main objects of the thesis was to suggest a new common cost allocation system to case-company utilizing Activity-based costing. However, the purpose was not to reject or totally reform the current allocation system but to create another system from Activity-based costing to work simultaneously with the current allocation system.

Theme interviews were used as principal methods in the thesis. Altogether five interviews were done in the case-company. All interviewees' tasks in the company were related somehow to the common cost allocations but each interviewee had different aspect to the allocations and they were working in different parts of the allocation chain. The purpose of the interviews was to clarify the current allocation system in case-company and find out the shortcomings of it.

As a theoretical basis of the thesis were used theories of common costs and as an essential theory was Activity-based costing. The theory of profit centre accounting and literature of support departments provided significant theory basis for the thesis due the nature of the case company. The case-company had profit centres organization and also a support unit. Furthermore the support unit allocated most of the common costs to the profit centres.

The empirical part of the thesis concentrated totally to the case-company by beginning with a closer introduction of the case-company and continuing with the description of the present allocation system with its deficiencies and development areas. Allocation system consisted mainly of two different phases: allocations from the corporate level to the profit centres, i.e. business areas (BA), and allocation inside the business areas. In the thesis was only concentrated to one BA, which was BA Commercial while the two other business areas were left out of review. The main common costs in the case-company were IT-costs, cost of premises, HR-costs and marketing costs.

One major shortcoming discovered in the present allocation system was the use of a cost driver based on the sales volume, because none of the above mentioned costs are varying with the sales volume. Researcher's proposal was to use Activity-based costing as an allocation method inside the BA Commercial and strengthen the processes and technical part of the allocations from the corporate level to Business Areas. Activity-based costing was considered as suitable for insurance company due the great amount of common costs in the case-company.

Key words	Common costs, allocation, Activity-based costing, service industry, cost driver, insurance business
Further information	