

FINANCE AT A GLANCE

Operating Expenses

Lesson 27

Operating expenses are expenditures that a business incurs to generate income. Given this definition, some finance and accounting references include cost of goods sold as an *operating expense*. In our discussion, we shall use the term *operating expense* to include only the following expenses:

1. **Sales and marketing expenses**
2. **Research and development expenses**
3. **General and administrative expenses**

Sales and marketing expenses are incurred in order to sell good or services.

Examples are:

- advertising
- promotion
- salesperson salaries
- distribution costs

They relate solely to the sales and marketing function.

Research and development expenses include:

- testing in search for a new product, service, process or technique
- improving substantially an existing product or service
- translating research results into a design for new products or processes

However, expenditures incurred for equipment and intangibles that have alternative future benefits are entered as costs in the balance sheet, and only the depreciation of such items are considered as expenses.

General and administrative expenses are those incurred to run the business as a whole.

Examples are:

- administrative executive salaries
- clerical staff salaries
- office utilities
- office rent
- depreciation of office equipment
- legal fees

Whether one prefers to include cost of goods sold under *operating expenses* category or to consider itself as a category in itself is not really important. What is important is to keep in mind the different nature of cost of goods sold vis-à-vis the three expense groups mentioned above.

Until then,

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