

R&D Expense

R&D expenses are a line item from many companies' income statements.

R&D expense (short for research and development expense) is essentially the amount of money that a company spends to develop new products and services each year. For example, if a pharmaceutical firm hires research scientists to develop new drugs, the salaries of these researchers will generally be expensed in the R&D expense category.

Like marketing expenses, but unlike capital expenditures, R&D expenses are subtracted from revenues every year directly. Therefore, accountants treat R&D spending as an expense rather than as an investment, though there is continuous debate over whether this is the correct classification.

An investor looking at companies with large R&D expenditures should think hard about whether a single company's R&D spending is an expense (like buying rubber to produce tires) or whether it is an investment (like buying machinery to produce tires more efficiently). Determining the answer to that question can have a large impact on how the company is valued.

Related Terms

- [Development Expense](#)
- [General and Administrative Expense](#)
- [R&D to Revenue](#)