

CAPEX **VS.** OPEX



CapEx VS. OpEx

However involved you are in corporate accounting, you've probably heard the terms capital expenditure (CapEx) and operating expenditure (OpEx) floating around. These two types of expenses have significant ramifications for businesses in all industries as they purchase a variety of items.

CapEx and OpEx are two different ways for companies to spend money and get the products and assets that they need to keep things moving every day. Both appear on a balance sheet in different ways and can influence your cash flow. To help you better understand them, we've put together a guide on capital expenses and operating expenses and how they can influence your cloud services model.

What Is CapEx (Capital Expenditures)?

A capital expenditure is one that a company makes to purchase significant goods or services that will be used for more than a year. These expenses depreciate over time, signifying the amount of use the item goes through. That's part of why a car with 100,000 miles on it is worth less than the same car with no miles on it.

Depreciation puts a numerical value to that use, and it is particularly high for electronics. Say a company buys a piece of equipment. As they use it day after day, the asset becomes less valuable. The amount of depreciation can then be deducted on a tax return.

On the property, plant and equipment (PP&E) section of the balance sheet, CapEx purchases are listed as assets. They also get included in a cash flow statement as investing activities.

The needs of a company's industry will dictate what its capital expenditures look like. Some common ones include:

- **Equipment purchases and upgrades**
- **Real estate purchases**
- **Building improvements or expansion**
- **Vehicle purchases**
- **Hardware purchases**



OPERATING EXPENDITURES

are spent on things like rent and salaries, **keeping the company running on an ongoing basis.**

What Is OpEx (Operating Expenditures)?

Operating expenditures, on the other hand, are spent to keep the company running every day. These ongoing expenses, like rent and salaries, are often monthly or recurring. They usually make up the largest portion of costs for a business and are commonly the place where management tries to cut costs. The trick is to do so without negatively impacting the company's ability to create its product.

These operating expenditures can be fully deducted for the tax year they are purchased in, making it a benefit in some scenarios. Many companies choose to lease a product instead of purchasing it if they want to classify it as an operating expense and reap the tax benefits. Doing so can help a company boost its cash flow by allowing it to deduct the total cost of the item in that year, and not spread out over multiple years with depreciation involved.

Some examples of operating expenditures include:

- **Rent**
- **Salaries**
- **Raw materials**
- **Licensing fees**
- **Insurance**
- **Consumables like office supplies**
- **Utilities**
- **Property taxes**
- **Any expense under selling, general and administrative expense (SG&A) on an income statement**

What Are the Benefits of Each?

Different businesses typically find that either CapEx or OpEx works better for them in general, since you can only identify most items as one or the other. Typically, OpEx is the preferred expense approach because of its impact on tax season. Of course, the CapEx vs. OpEx debate is full of advantages and disadvantages.

The Case for OpEx

OpEx offers more immediate tax deduction benefits. Businesses can write off their purchases in the year they are made instead of spreading them out over several tax years. This reduces the income tax they must pay and puts more money in the bank. The extra money can grant the company more earning power since it can be used right away to generate more revenue.

Many businesses, especially those that are new or don't have much cash flow yet, benefit from this faster tax break. It often factors into decisions to lease or purchase monthly service options instead of investing in expensive equipment. For example, a growing business with limited cash flow might benefit from the increase in cash that comes from writing off a product in the year it is purchased with OpEx. Instead of buying the product and going through depreciation, they could lease it and deduct it from taxes in the immediate year.

Another bonus to OpEx is that it doesn't require extensive upfront investments. Typically, with leasing or monthly access options, you can spread the cost out into more manageable installments. This aspect is again helpful for businesses with less excess cash.

The Case for CapEx

Of course, CapEx has its benefits too. It tends to be more useful to large, established businesses due to its long-term nature. CapEx adds to a company's assets. While a small part of the purchase gets deducted in the accounting year in which it is purchased, the bulk of it is spread out and doesn't save the company much money on taxes. Still, the asset is 100 percent owned by the company and looks good on your balance sheet before it depreciates.

CapEx can offer a company more control over the asset. Many services that are traditionally CapEx can be turned into OpEx, like software access and data storage. Instead of purchasing software or hardware, companies can pay for access to these services.

LaserBlast™ Cleaning System 100 Watts

Allied Scientific Pro (ASP) has developed and manufactured a laser cleaning system for the conservation market. Offering full control over a wide range of parameters allows for precise cleaning with the ability to retain patinas.

With a long legacy of expertise in laser nano and micro machining process, ASP is capable of offering a state of the art laser system to address the needs of the conservators. Our laser system is compact, robust and has a long lifetime with low or no maintenance for years. We are using the latest laser and scanner technology to offer high quality performance and speed efficient cleaning without causing damage to the object.

ASP laser laboratory services can assist conservators by establishing optimal parameters from samples provided if required.

- 100 Watt output laser from the laser head
- 5 meters or more optical fiber delivery for remote access
- Short pulse with no thermal effect
- Long lifetime with the latest laser technology made in the USA
- Low cost of operation
- Air Cooled, no need for water cooled which helps preserve the building
- One worker operation
- Laser safety glasses included
- 1 year warranty



LaserBlast™ Cleaning System 200 Watts

Allied Scientific Pro (ASP) has developed and manufactured a laser cleaning system to replace traditional blast media methods, sand, glass beads or dryice . Offering full control over a wide range of parameters allows for precise cleaning with the ability to retain patinas or industrial parts intact.

With a long legacy of expertise in laser nano and micro machining process, ASP is capable of offering a state of the art laser system to address the needs of the industrial applications. Our laser system is compact, robust and has a long lifetime with low or no maintenance for years. We are using the latest laser and scanner technology to offer high quality performance and speed efficient cleaning without causing damage to the object.

ASP laser laboratory services can assist and by establishing optimal parameters for your application.

- Available power 100, 200, 500, 1000 Watt output laser from the laser head
- 5 meters or more optical fiber delivery for remote access
- Short pulse with no thermal effect
- Long lifetime with the latest laser technology made in the USA
- Low cost of operation
- Water cooled which helps preserve the building
- One worker operation
- Laser safety glasses included
- 1 year warranty



LaserBlast™ Cleaning System 500 Watts

Allied Scientific Pro (ASP) has developed and manufactured a laser cleaning system to replace traditional blast media methods, sand, glass beads or dryice . Offering full control over a wide range of parameters allows for precise cleaning with the ability to retain patinas or industrial parts intact.

With a long legacy of expertise in laser nano and micromachining process, ASP is capable of offering a state of the art laser system to address the needs of the industrial applications. Our laser system is compact, robust and has a long lifetime with low or no maintenance for years. We are using the latest laser and scanner technology to offer high-quality performance and speed efficient cleaning without causing damage to the object.

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Choosing CapEx or OpEx

If you need to decide between CapEx and OpEx approaches, there is a lot to consider. Cost, of course, is the primary factor. But you'll also want to think about what else each of these options offers you and how that will affect your work. Would updated technology from a cloud service provider improve the work you do? Does your company have the budget and organization to manage an on-site system with its own IT department?

Asking questions like these can help you identify other areas where CapEx and OpEx can offer financial benefits and what kind of aspects your company has to work with. Also consider how well you can predict your company's data needs in the future — this needs to be spot on if you're using CapEx. OpEx approaches can be much more forgiving if your estimates turn out to be incorrect since you can change your agreement accordingly.

Spend some time considering your business needs and how well you can adapt the advantages and disadvantages of each option.

To learn how **Allied Scientific Pro** can help you meet your OpEx goals, reach out to an expert today.



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