

DIRECT EXPENSES (COST OF GOODS SOLD)

- Directly tied to performing a specific job or service.
- Subtracted from your Gross Revenue to calculate **Gross Margin**.

Examples: Labor, materials, and equipment, and subcontractors.

INDIRECT EXPENSES (OVERHEAD)

- General costs required to run the entire business.
- Subtracted from your *Gross Margin* to calculate **Net Profit**.

Examples: Office space, insurance, support labor, and depreciation.

This classification system helps to evaluate pricing. If your Gross Margin is low, your direct expenses are too high. If Net Profit is low, indirect expenses are too high.