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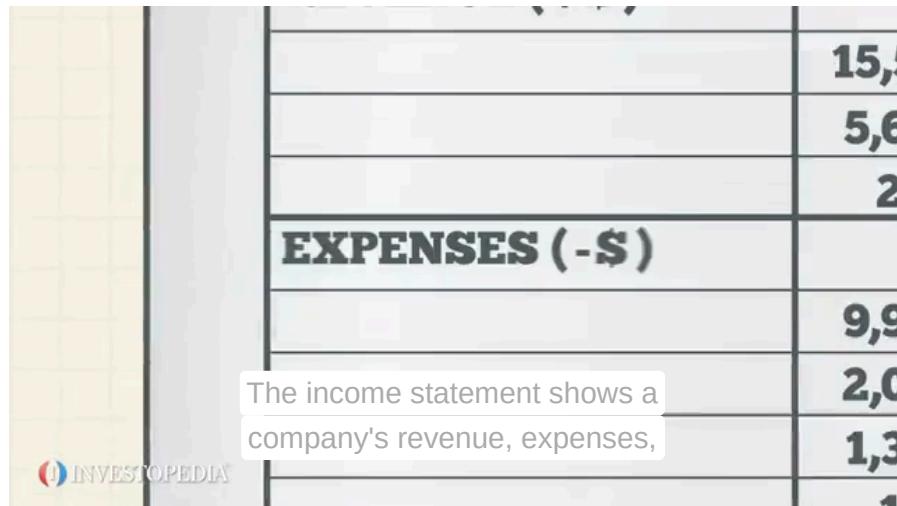
An essential financial document that reports revenue, expenses, gains, and losses

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Part of the Series
Guide to Accounting

**DEFINITION:**

The income statement is a financial report that summarizes a company's financial performance over a specific accounting period. It includes a company's revenue, expenses, and net income.

What Is an Income Statement?

An income statement, also known as the profit and loss (P&L) statement, summarizes a company's revenue, expenses, gains, and losses over a specific accounting period. The statement provides valuable insights into operations, management efficiency, and performance relative to industry peers.

KEY TAKEAWAYS

- An income statement shows a business's revenue, expenses, gains, and losses, starting with revenue and ending with net income.
- Other financial statements used by businesses are the balance sheet and cash flow statement.
- An income statement provides insight into a company's operations, efficiency, management, and performance relative to others in the same sector.
- The income statement can be presented in a single-step or multi-step format.

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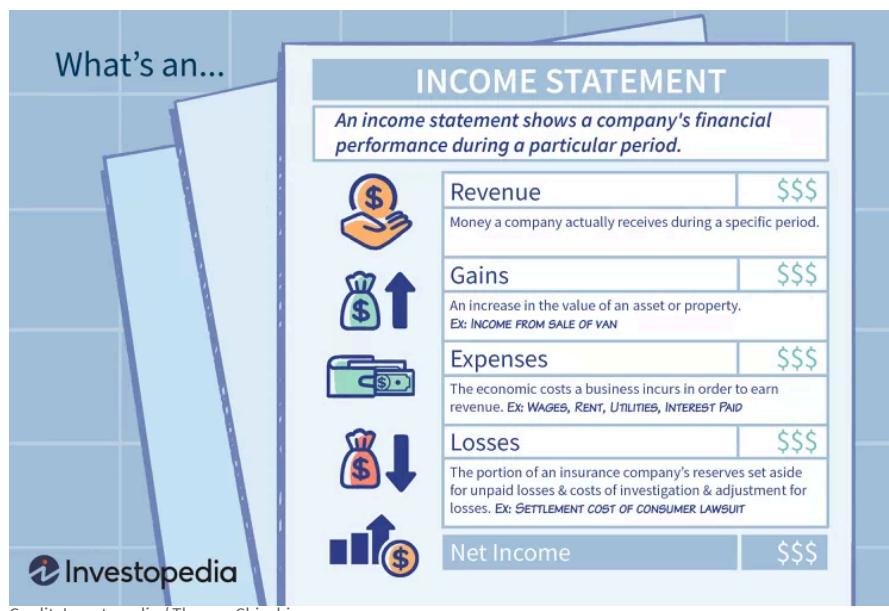
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Credit: Mira Norian / Investopedia

Understanding the Income Statement

The income statement is an integral part of company performance reports. While the balance sheet provides a snapshot of a company's financials as of a particular date, the income statement reports income through a specific period, usually a quarter or a year.



Credit: Investopedia / Theresa Chiechi

The income statement gives an account of how the [net revenue](#) realized by the company is transformed into net earnings (profit or loss). This requires reporting four key items: revenue, expenses, gains, and losses. An income statement starts with the details of sales and then works down to compute net income and eventually earnings per share (EPS). In each line, the income statement does not differentiate between cash and non-cash receipts (sales in cash vs. sales on credit) or cash vs. non-cash payments/disbursements (purchases in cash vs. purchases on credit).

The period the income statement covers is indicated in its heading. For example, it could read: "for the year ended January 31, 2025", which would be

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⚡ IMPORTANT

A publicly traded company must submit income statements to the U.S. [Securities and Exchange Commission](#) (SEC). [1]

Parts of an Income Statement

The format of an income statement may vary, depending upon the local regulatory requirements, the diversified scope of the business, and the associated operating activities. However, regardless of format, certain information will be present.

Operating Revenue

Revenue realized through primary activities is often referred to as [operating revenue](#). For a company manufacturing a product, or for a wholesaler, distributor, or retailer involved in the business of selling that product, the revenue from primary activities refers to revenue achieved from the sale of the product.

Similarly, for a company (or its franchisees) in the business of offering services, revenue from primary activities refers to the revenue or fees earned in exchange for offering those services.

Non-Operating Revenue

Revenue realized through secondary, noncore business activities is often referred to as nonoperating, recurring revenue. This revenue is sourced from the earnings that are outside the purchase and sale of goods and services, such as income from:

- Interest earned on business capital in the bank
- Renting business property
- Strategic partnerships like royalty payments
- Advertisements placed on business property

Gains

Also called [other sundry income](#), gains indicate the net money made from other activities like the sale of long-term assets. These include the net income realized from one-time nonbusiness activities, such as a company selling its old transportation van, unused land, or a subsidiary company.

Revenue should not be confused with receipts. Payment is usually accounted for in the period when sales are made or services are delivered. Receipts are the cash received and are accounted for when the money is received.

For example, a customer may take goods or services from a company on September 28, which will result in revenue accounted for in September. The

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A business's cost to continue operating and turning a profit is known as an expense. Some of these expenses may be written off on a tax return if they meet Internal Revenue Service (IRS) guidelines.

Primary-Activity Expenses

These are all expenses incurred for earning the average operating revenue linked to the primary activity of the business. They include the cost of goods sold (COGS), selling, general, and administrative (SG&A) expenses, depreciation or amortization, and research and development (R&D) expenses. Typical items that make up the list are:

- Employee wages
- Sales commissions
- Utilities
- Transportation

Secondary-Activity Expenses

These are all expenses linked to non-core business activities, like [interest](#) paid on loan money. They may be recurring or happen only once.

Losses As Expenses

These are all expenses that go toward a loss-making sale of long-term assets, one-time or any other unusual costs, or expenses toward lawsuits.

Income Statement Structure

Mathematically, net income is calculated based on the following:

$$\text{Net Income} = (\text{Revenue} + \text{Gains}) - (\text{Expenses} + \text{Losses})$$

To understand the above formula with some real numbers, let's assume that a fictitious sports merchandise business, which additionally provides training, is reporting its income statement for a recent hypothetical quarter.

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Merchandise Sale		
Revenue	Revenue from Training	\$25,800
	Total Revenue	<u>5,000</u> 30,800
Expenses	Procurement Costs	8,000
	Wages	700
	Rent	1,000
	Interest Paid	500
	Transportation	300
	Utilities	<u>150</u>
	Total Expenses	<u>10,650</u>
Gains	Income from sale of van	2,000
Losses	Settlement cost of consumer lawsuit	800
Net Income	(Revenue + Gains) - (Expenses + Losses)	21,350

Credit: Investopedia / Sabrina Jiang

The company generated \$25,800 from the sale of sports goods and \$5,000 from training services for a total of \$30,800 in revenue. However, that money didn't stay in its pocket. Generating that revenue cost a total of \$10,650. Major expenses included procurement costs, rent, and wages.

The company also realized a net gain of \$2,000 from the sale of an old van and incurred a loss of \$800 for settling a dispute raised by a consumer.

If you subtract all the outgoings from the money the company received, you are left with \$21,350. That's the company's net income for the given quarter.

Single-Step vs. Multiple-Step Income Statement

The above example is the simplest form of income statement that any standard business can generate. It is called the [single-step income statement](#) as it is based on a simple calculation that sums up revenue and gains and subtracts expenses and losses.

However, real-world companies often operate on a global scale, have diversified business segments offering a mix of products and services, and frequently get involved in mergers, acquisitions, and strategic partnerships. Such a wide array of operations, diversified set of expenses, various business activities, and the need for reporting in a standard format per regulatory compliance lead to multiple and complex accounting entries in the income statement.

In a multi-step income statement for a large corporation, the measures of profitability are reported at four different levels in a business's operations: gross, operating, pretax, and after-tax. This segregation helps in identifying how the income and profitability are moving/changing from one level to the other. For instance, high gross profit but lower operating income indicates higher

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the operating revenue, operating expenses, and gains from the nonoperating revenue, nonoperating expenses, and losses, as well as offering many more details.

Income Statement Example

For a real-world example, let's look at Microsoft Corporation's June 2025 Income Statement as reported to the Securities and Exchange Commission (SEC). [2]

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INCOME STATEMENTS

(In millions, except per share amounts)	2025	2024	2023
Year Ended June 30,			
Revenue:			
Product	\$ 63,946	\$ 64,773	\$ 64,699
Service and other	217,778	180,349	147,216
Total revenue	281,724	245,122	211,915
Cost of revenue:			
Product	13,501	15,272	17,804
Service and other	74,330	58,842	48,059
Total cost of revenue	87,831	74,114	65,863
Gross margin	193,893	171,008	146,052
Research and development	32,488	29,510	27,195
Sales and marketing	25,654	24,456	22,759
General and administrative	7,223	7,609	7,575
Operating income	128,528	109,433	88,523
Other income (expense), net	(4,901)	(1,646)	788
Income before income taxes	123,627	107,787	89,311
Provision for income taxes	21,795	19,651	16,950
Net income	\$ 101,832	\$ 88,136	\$ 72,361
Earnings per share:			
Basic	\$ 13.70	\$ 11.86	\$ 9.72
Diluted	\$ 13.64	\$ 11.80	\$ 9.68
Weighted average shares outstanding:			
Basic	7,433	7,431	7,446
Diluted	7,465	7,469	7,472

Microsoft's Income Statement.
Credit: Microsoft

Revenue Section

The Revenue section shows that Microsoft's gross margin, also known as gross (annual) profit, for the fiscal year ending June 30, 2025, was \$193.9 billion. This number is arrived at by deducting the cost of revenue (\$87.8 billion) from the total revenue (\$281.7 billion)—in other words, revenue minus the amount it costs to produce that \$281.7 billion.

Comparing these numbers, you can see that just over 30% of Microsoft's total sales went toward costs for revenue generation. [2]

Operating Expenses

Operating expenses are further expenses that are subtracted from total revenue. Microsoft spent \$32.5 billion on research and development (R&D), over \$25.7 billion on sales and marketing costs, and \$7.2 billion on general and administrative costs. Total operating expenses are computed by summing all these figures (\$87.8 billion + \$32.5 billion + \$25.7 billion + \$7.2 billion) to arrive at \$153.2 billion.

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If total revenue minus total operating expenses is a negative number, this is considered an operating loss.

Income From Continuing Operations

Following operating expenses are other forms of income, known as income from continuing operations. This includes operating income, other net income, interest-linked expenses, and applicable taxes. Adding these together with operating income, we arrive at a net income of \$88.1 billion for Microsoft.

Net income is then used to calculate earnings per share (EPS) using the average shares outstanding, which are also listed on the income statement. EPS is calculated by dividing the net income figure by the number of weighted average shares outstanding. With 7.433 billion outstanding shares, Microsoft's basic EPS came to \$13.70 per share ($\$101.8 \text{ billion} \div 7.433 \text{ billion}$). [2]

Uses of Income Statements

Income statements can be used in a variety of ways. Externally, they are most commonly used by investors and creditors. Internally, they can be used by company executives or management teams.

Investors

The primary purpose of an income statement is to convey details of profitability and business activities of the company to the stakeholders. It also provides detailed insights into the company's internal activities. This can be used for comparison across different businesses and sectors. By understanding the income and expense components of the statement, an investor can appreciate what makes a company profitable.

Management

Primary revenue and expenses offer insights into how well the company's core business is performing. Secondary revenue and fees, on the other hand, account for the company's involvement and expertise in managing ad hoc, non-core activities. Compared with the income from the sale of manufactured goods, a substantially high-interest income from money lying in the bank indicates that the business may not be using the available cash to its full potential by expanding the production capacity, or that it is facing challenges in increasing its market share amid competition.

On the other hand, recurring secondary income, such as rental income from hosting billboards at the company factory along a highway, indicates that

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make decisions like:

- Expanding to new geographic areas
- Pushing sales
- Expanding into a new sector
- Expanding production capacity
- Increasing the use of assets
- Selling or buying capital assets
- Shutting down a department or product line

 FAST FACT

Competitors also may use income statements to gain insights about the success parameters of a company, such as how much it is spending on research and development. This can prompt them to change their own business model or spending.

Creditors

Creditors are often more concerned about a company's future cash flows than its past profitability. However, their research analysts can use an income statement to compare year-on-year and quarter-on-quarter performance. They can infer, for example, whether a company's efforts at reducing the cost of sales helped it improve profits over time, or whether management kept tabs on operating expenses without compromising on profitability.

Explain Like I'm 5

An income statement is like a company's financial report card.

It shows what the business earned (revenue), what it spent (expenses), and what's left (profit or loss) during a specific accounting period.

The income statement answers the bottom-line question: Did the company make or lose money?

The Bottom Line

An income statement is a financial statement that lays out a company's revenue, expenses, gains, and losses during a set accounting period. It provides valuable insights into various aspects of a business, including its overall profitability and earnings per share.

Investors, competitors, and executives can use the income statement to better understand a company's operations, the efficiency of its management, areas that may be eroding profits, and whether the company is performing in line with industry peers.

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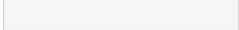
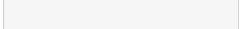
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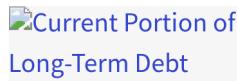
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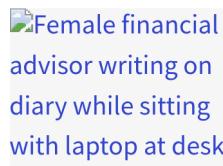
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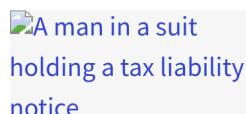
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