

2025 VCE Accounting (NHT) external assessment report

Specific information

This report provides sample answers, or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

Question 1a.

This question required students to record transactions in an inventory card using the First In, First Out (FIFO) cost assignment method.

Inventory Card

Item: Basketball Booster Packs		Cost assignment method: FIFO								
Supplier: Card2U		IN			OUT			BALANCE		
Date 2025	Document	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Jan 1	Balance							140	5.00	1 700
4	EFT 6560	200	5.20	1 040				140	5.00	700
								200	5.20	1 740
6	EFT 267				140	5.00				
					20	5.20	804	180	5.20	936
9	Inv 332	300	5.00	1 500				180	5.20	
								300	5.00	2 436
12	Inv 556				90	5.20	468	90	5.20	
								300	5.00	1 968
15	Memo 44				25	5.20	130	65	5.20	
								300	5.00	1 838
19	Inv 670				65	5.20				
					100	5.00	838	200	5.00	1 000
21	Inv 455	200	5.50	1 100				200	5.00	
								200	5.50	2 100
25	EFT 367				83	5.00	415	117	5.00	
								200	5.50	1 685
31	Memo 48	16	5.50	88				117	5.00	
								216	5.50	1 773

One mark was awarded for each entry.

Higher-scoring responses recorded transactions accurately and identified that the inventory gain was calculated using the cost of the Basketball Booster Packs from 21 January. They applied the concept of using the latest cost in the In column when determining an inventory gain.

Students should be aware of the application of the cost assignment methods for inventory provided in the Study Design.

Question 1b.

This question required students to calculate the Sales and Cost of Sales for Basketball Booster Packs for January using the inventory card.

<p>Basketball Booster Packs Sold = $140 + 20 + 90 + 65 + 100 + 83 = 498$ units</p> <p>Selling Price = \$8</p> <p>= $498 * \\$8$</p> <p style="text-align: right;">Sales \$3 984</p>

<p>= $\\$804 + \\$468 + \\$838 + \\415</p> <p style="text-align: right;">Cost of Sales \$2 525</p>

- One mark was awarded for 498 units.
- One mark was awarded for \$8 selling price.
- One mark was awarded for any two correct Cost of Sales amounts (up to two marks).

Higher-scoring responses used the information provided to identify the selling price of the Basketball Booster Packs and to multiply it by the amount sold. These responses identified that some items in the Out column of the inventory card were not sales. When calculating Cost of Sales, they did not include the \$130 that was supported by a Memo as this was not a Cost of Sale.

Students should ensure that they are able to describe transactions that are provided through Source Documents so that they are aware of the nature of the transaction.

Question 1c.

This question required students to state the effect of an inventory gain on the Balance Sheet of the business.

The transaction on 31 January 2025 will result in an increase in inventory of \$88, which will increase current assets. Owner's equity will increase by \$88, as there will be an inventory gain.

- One mark was awarded for the effect on current assets.
- One mark was awarded for the effect on owner's equity.

Higher-scoring responses identified that determining the impact on the Balance Sheet required them to refer to the area of classification of a Balance Sheet. This question is different from one that requires students to state the effect on the accounting equation.

Question 1d.

This question required students to complete an extract of a variance report.

CardXtra

Income Statement Variance Report (extract) for the month ended 31 January 2025

Item	Budget	Actual	Variance	Favourable/ unfavourable
Cost of Sales	85 000	78 000	7 000	Favourable

- One mark was awarded for a favourable variance of \$7 000.

Question 1e.

This question required students to provide two possible reasons for the variance between the budgeted and actual Cost of Sales for CardXtra for the month ended 31 January 2025.

CardXtra's Cost of Sales was \$7 000 less than the budgeted figure. Possible reasons for the variance could be that sales were lower or the business purchased inventory at lower prices.

- One mark was awarded for each reason that supported the budgeted Cost of Sales being higher than the actual amounts.

Higher-scoring responses used the response provided in Question 1d to provide reasons for the variance in Cost of Sales. The only two possible variables were a variance in sales or the purchase price of inventory.

Question 2a.

This question required students to calculate the Bad Debts expense to be reported in the Income Statement for February.

Net credit sales = \$44 000 – \$2 500 = \$41 500
 New allowance = \$41 500 * 5% = \$2 075
 Current balance = \$1 440 Dr
 Adjustment required for balance of \$2 075
 = \$1 440 + \$2 075
 = \$3 515

- One mark was awarded for net credit sales of \$41 500.
- One mark was awarded for new allowance amount of \$2 075.
- One mark was awarded for \$1 440 + \$2 075.

Higher-scoring responses recognised that Sportz5000 had an opening Allowance for Doubtful Debts balance and a bad debt that was required to be written off. The question required students to calculate the net credit sales, with higher-scoring responses demonstrating recognition that the GST had to be excluded from this calculation. Students should show their workings when completing calculation questions, because an incorrect net credit sales figure will impact on the overall result.

Question 2b.

This question required students to complete the Accounts Receivable and Allowance for Doubtful Debts accounts for February.

Sportz5000
General Ledger

Accounts Receivable

Date 2025	Cross-reference	Amount	Date 2025	Cross-reference	Amount
Feb 1	Balance	26 000	Feb 17	Allowance for Doubtful Debts/ GST Clearing	3 300
28	Sales/GST Clearing	48 400		Sales Returns/GST Clearing	2 750
				Bank	17 000
				Discount Expense	350
				Balance	51 000
		74 400			74 400
Mar 1	Balance	51 000			

Allowance for Doubtful Debts

Date 2025	Cross-reference	Amount	Date 2025	Cross-reference	Amount
Feb 17	Accounts Receivable (1)	3 000	Feb 1	Balance	1 560
28	Balance	2 075	28	Bad Debts Expense	3 515
		5 075			5 075
			Mar 1	Balance	2075

- One mark was awarded for Sales/GST Clearing \$48 400.
- One mark was awarded for Allowance for Doubtful Debts/GST Clearing \$3 300.
- One mark was awarded for Sales Returns/GST Clearing \$2 750.
- One mark was awarded for Bank \$17 000.
- One mark was awarded for Discount Expense \$350.
- One mark was awarded for Accounts Receivable \$3 000.
- One mark was awarded for Bad Debts Expense \$3 515.
- One mark was awarded for balancing both ledger accounts.

Question 2c.

This question required students to explain how the trend in the Accounts Receivable Turnover will affect the liquidity and profitability of the business.

Marks	Criteria
4	Detailed explanation of the connections between the trend in Accounts Receivable Turnover and the liquidity and profitability for the business Accurate use of accounting terminology
3	Description of the trend in Accounts Receivable Turnover and connections to liquidity and profitability General use of accounting terminology
1–2	Basic definition of liquidity and/or profitability

The turnover of Sportz5000 has slowed over the period. The business will find it difficult to meet its short-term debts when they fall due, as while current assets are increasing, collections from customers are slowing. This could put pressure on cash flow and will have an adverse effect on liquidity. The slower Accounts Receivable Turnover could also be an indication that customers are having cash flow issues. This may result in bad debts. It could also result in Sportz5000 missing out on opportunity to earn interest revenue or pay accounts payable earlier to earn discount revenue.

Higher-scoring responses demonstrated an understanding of the concepts of liquidity and profitability and provided a detailed explanation of the relationship between the trend in Accounts Receivable Turnover and liquidity and profitability by referring to the secondary impacts of a slower Accounts Receivable Turnover. These higher-scoring responses recognised that as accounts receivable take longer to pay, they are more likely to be unrecoverable. When referring to the trend in Accounts Receivable Turnover, the term 'slowing', rather than 'increasing', was required to be used to gain full marks.

Students should be aware of the relationships between accounting indicators and the concepts of liquidity, profitability and stability. Even when students are able to identify the relationship between Accounts Receivable Turnover and liquidity, they may find it difficult to understand the impact of a cash-based turnover on profitability as it is more complex.

Question 2d.

Students were required to carefully read the information provided in the question when preparing their response.

In this question, students were required to explain two strategies that would result in an improvement in the Accounts Receivable Turnover of Sportz5000.

The following were considered acceptable strategies:

- Improving the quality of credit customers by reviewing customers who are provided with credit terms.
- Invoicing customers promptly to encourage them to consider payment when the inventory is delivered.
- Sending out reminders to accounts receivable to ensure that they are prompted to pay the balance owing.

Students could refer to increasing the discount offered to accounts receivable, although offering a discount is already a strategy that has been implemented and therefore cannot be proposed as a new strategy.

However, students could refer to providing an additional discount for early payment, as this would encourage accounts receivable to pay earlier.

One mark was awarded for each strategy.

Higher-scoring responses explained strategies that resulted in accounts receivable paying faster while reducing the risk of bad debts.

Question 3.

This question required students to discuss the financial and ethical considerations that the business faces when deciding between the two options, and to make a recommendation about which option the business should select.

Marks	Criteria
5–6	<p>Detailed understanding of financial and ethical implications of decisions made by the business owner, including reference to the financial data provided</p> <p>Comprehensive discussion of the positive and negative implications of both possible recommendations and the potential impact on the performance of the business</p> <p>Makes a recommendation</p>
3–4	<p>General understanding of financial and ethical implications of decisions made by the business owner</p> <p>Reference to the implications of the potential impact on the performance of the business</p> <p>Makes a recommendation</p>
1–2	<p>Basic, if any, reference to ethical and/or financial considerations</p> <p>Identification of at least one ethical issue and one financial issue</p> <p>Makes a recommendation</p>

WortaFlow is considering two options for its eco-friendly drink bottle range. The current supplier in Option A offers a high-quality durable bottle that is visually appealing, which therefore suits the needs of customers whose preference is for quality products. While the surveys do not refer to the ethical considerations that customers consider when purchasing a bottle, it can be assumed that such considerations will influence customers' decisions around whether to purchase these eco-friendly bottles. The current supplier appears to provide a level of profit; however, Option B has a lower cost price while also offering a high-quality bottle. In addition, this latter option is less durable, which could result in an increase in sales returns as customers will need to replace their bottles more regularly. Yet the desire for a durable bottle may lead to customers purchasing a different brand, resulting in fewer repeat sales. As the owner has budgeted on sales increasing by 20%, we need to consider whether the change in brand could result in that target not being met. If customers are ethically minded, they may also consider other suppliers when they become aware of the safety issues that the business has had. It is likely that young people who are ethically minded would be aware of these issues if they searched for information about the company online.

Higher-scoring responses used the source information provided to discuss the financial and ethical considerations that the business faced when deciding between the two options and considered both the positives and negatives of each option when forming their recommendation. These responses also used the survey information indicating young people's preference for a high-quality bottle and balanced this with the sensitivity to price fluctuations.

Marks were awarded for the overall quality of the response, rather than merely which option was recommended by the student. The marking guide indicates that higher-scoring responses must make a recommendation but does not identify which recommendation is required. A comprehensive discussion of the positive and negative impacts of both options was required, allowing students to demonstrate their

understanding of how the business owner would make the decision rather than simply listing the information provided in the question.

Question 4a.

This question required students to prepare the Accounts Payable and GST Clearing ledger accounts to determine relevant items for the Budgeted Cash Flow Statement for April.

Tod's Tiles

General Ledger

Accounts Payable

Date 2025	Cross-reference	Amount	Date 2025	Cross-reference	Amount
Apr 30	Bank	208 500	Apr. 1	Balance	24 200
	Discount Revenue	3 800	30	Inventory/GST Clearing	214 500
	Balance	26 400			
		238 700			238 700

GST Clearing

Date 2025	Cross-reference	Amount	Date 2025	Cross-reference	Amount
Apr 30	Accounts Payable	19 500	Apr. 1	Balance	3 500
	Bank	1 900	30	Bank	36 000
	Bank	11 200			
	Balance	6 900			
		39 500			39 500

- One mark was awarded for Bank \$208 500.
- One mark was awarded for Discount Revenue \$3 800.
- One mark was awarded for Balance \$26 400.
- One mark was awarded for Inventory/GST Clearing \$214 500.
- One mark was awarded for Accounts Payable \$19 500.
- One mark was awarded for Bank \$1 900.
- One mark was awarded for Bank \$11 200.
- One mark was awarded for Balance \$6 900.
- One mark was awarded for Bank \$36 000.

This question required students to provide information in a Budgeted Balance Sheet and Budgeted Income Statement to prepare General Ledger accounts. Higher-scoring responses identified that the payments to accounts payable (Bank) and the payment of GST to the Australian Tax Office (ATO) needed to be reconstructed from the information provided.

Students must be able to reconstruct General Ledger accounts in order to identify missing transactions.

Lower-scoring responses reflected difficulty with cross-references. Students should regularly practise completing cross-references.

Question 4b.

This question required students to prepare the Operating Activities section of the Budgeted Cash Flow Statement for Tod's Tiles for April 2025.

Tod's Tiles

Budgeted Cash Flow Statement (extract) for the month ending 30 April 2025

	\$	\$
Cash Flow from Operating Activities		
Cash Sales	360 000	
GST Receipts	36 000	396 000
GST Payments	(1 900)	
GST Settlement	(11 200)	
Accounts Payable	(208 500)	
Wages	(67 500)	
Advertising	(19 000)	(308 100)
Net Cash Flows from Operating Activities		87 900

- One mark was awarded for Cash Sales \$360 000/Cash Receipts \$36 000.
- One mark was awarded for GST Payments \$1 900.
- One mark was awarded for GST Settlement \$11 200.
- One mark was awarded for Accounts Payable \$208 500.
- One mark was awarded for Wages \$67 500.
- One mark was awarded for Advertising \$19 000.
- One mark was awarded for Net Cash Flows from Operating Activities \$87 900.

Higher-scoring responses allocated cash payments relating to the day-to-day trading activities of the business to the Operating Activities section of the Cash Flow Statement.

Lower-scoring responses did not accurately classify the titles correctly in the Cash Flow Statement. While the question required students to complete the Operating Activities section of the Cash Flow Statement, lower-scoring responses included financing activities and non-cash items such as discount revenue.

Question 4c.

This question required students to provide two reasons why the balance in the bank account of Tod's Tiles would decrease over the month, despite the business budgeting for a profit. One mark was awarded for each reason, and one mark was awarded for an explanation of each reason.

The following were considered acceptable explanations of reasons:

- Payments to Accounts Payable were \$208 500, although Cost of Sales was only \$165 000. As more cash is paid to Accounts Payable than inventory is sold to customers, this could result in the bank account decreasing at a greater rate than profit.
- Cash drawings would reduce cash but have no effect on profit, which would result in the bank account decreasing while net profit would not be impacted.
- Repayment of loans would reduce cash but have no effect on profit, which would result in the bank account decreasing while net profit would not be impacted.
- GST Settlement would reduce cash but have no effect on profit, which would result in the bank account decreasing while net profit would not be impacted.

Higher-scoring responses explained the reasons provided by considering both the cash and profit effect of the transactions. When referring to Accounts Payable decreasing cash, students were required to provide the contrasting account, Cost of Sales. As the question asked for an explanation of the reasons, responses were required to explain rather than simply identify an account that is impacted.

Lower-scoring responses referred to a reason for cash decreasing or profit increasing, although the question required students to explain the effect of cash and profit, rather than simply referring to one in isolation. These responses did not demonstrate the student's understanding of the difference between cash and profit.

Question 5a.

This question required students to calculate the depreciation of the old vehicle using the reducing-balance depreciation method.

$= (\text{Cost} - \text{Accumulated Depreciation}) * 25\% / 12 \text{ months}$ $= (\$60\,000 - \$36\,000) * 25\% / 12 \text{ months}$ $= (\$24\,000) * 25\% / 12 \text{ months}$	Depreciation of old vehicle for April = \$500
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- One mark was awarded for \$500.

Students were required to identify that the business was using the reducing-balance method of depreciation and reporting monthly. Students should ensure that they identify the constraints in a question and the reporting period used by a business.

Question 5b.

This question required students to record the disposal of a vehicle in the General Journal. As the transaction was a cash sale of a non-current asset, students were required to recognise the GST on the disposal as part of the \$27 500 bank entry, but some responses did not record the GST Clearing amount.

General Journal

Date 2025	Details	Debit	Credit
Apr 30	Disposal of Vehicle	60 000	
	Vehicle		60 000
30	Accumulated Depreciation of Vehicle	36 500	
	Disposal of Vehicle		36 500
30	Bank	27 500	
	GST Clearing		2 500
	Disposal of Vehicle		25 000
30	Disposal of Vehicle	1 500	
	Profit on Disposal of Vehicle		1 500

- One mark was awarded for Disposal of Vehicle \$60 000 and Vehicle \$60 000.
- One mark was awarded for Accumulated Depreciation of Vehicle \$36 500 and Disposal of Vehicle \$36 500.
- One mark was awarded for Bank \$27 500.
- One mark was awarded for GST Clearing \$2 500 and Disposal of Vehicle \$25 000.
- One mark was awarded for Disposal of Vehicle \$1 500 and Profit on Disposal of Vehicle \$1 500.

Higher-scoring responses recorded the GST on the disposal of the vehicle and recognised that the transaction resulted in a profit on the disposal of the vehicle.

Lower-scoring responses recorded errors such as reversing entries or did not include the GST on the disposal of the vehicle. Some lower-scoring responses did not include the full title of Disposal of Vehicle or Accumulated Depreciation of Vehicle for accounts.

Question 5c.

This question required students to record the purchase of a new vehicle in the General Journal.

General Journal

Date 2025	Details	Debit	Credit
Apr 30	Vehicle	47 000	
	Prepaid Roadside Assistance	200	
	GST Clearing	4 720	
	Bank		51 920

- One mark was awarded for Vehicle \$47 000 and Prepaid Roadside Assistance \$200.
- One mark was awarded for GST Clearing \$4 720.
- One mark was awarded for Bank \$51 920.

Higher-scoring responses identified that roadside assistance is a current asset and should be recorded as Prepaid Roadside Assistance.

Lower-scoring responses did not include roadside assistance or did not accurately calculate the GST Clearing.

Question 5d.

This question required students to explain the classification of depreciation of vehicles.

Depreciation is an expense that decreases the carrying value of the vehicles by increasing the accumulated depreciation and decreasing owner's equity as it decreases net profit.

- One mark was awarded for expense.
- One mark was awarded for decreases the carrying value of the vehicles by increasing the accumulated depreciation.
- One mark was awarded for accumulated depreciation and decreasing owner's equity as it decreases net profit.

Higher-scoring responses used the definition of expense and applied it to the concept of depreciation. They recognised that accumulated depreciation results in a decrease in the assets of the business.

Lower-scoring responses did not accurately apply the concept of accounting elements, and some responses referred to accounting assumptions.

Question 5e.

This question required students to explain how depreciation is consistent with the application of the Period assumption.

Marks	Criteria
4	Detailed explanation of the relationship between the Period assumption and the depreciation of the vehicle Accurate use of accounting terminology
3	Basic description of the relationship between the Period assumption and depreciation of the vehicle General use of accounting terminology
1–2	Basic understanding of Period assumption and/or depreciation

The Period Assumption requires the life of the business to be divided into periods of time in order to obtain comparability of results. Expenses incurred are subtracted from revenue earned in order to calculate an accurate net profit.

The depreciation of the vehicle allocates the cost of the asset over its useful life; this allows for net profit to be reported for each period. The revenue-earning pattern of the non-current asset is used to allocate the expense, which allows for the expense incurred to be matched to the revenue earned.

Higher-scoring responses recognised the relationship between the expense incurred by the vehicle and the revenue that it generates. The concept of matching expenses incurred to revenue earned is consistent with the application of the Period Assumption.

Lower-scoring responses referred to the Period Assumption requiring the business to report according to set periods but did not refer to the revenue-earning pattern of the vehicle.

Question 6a.

This question required students to prepare General Journal entries to record a correcting entry and balance day adjustments.

General Journal

Date 2025	Details	Debit	Credit
Mar 31	Accrued Wages	400	
	Wages Expense		400
31	Unearned Sales Revenue	500	
	Accounts Receivable	2 800	
	Sales		3 000
	GST Clearing		300
	Cost of Sales	1 500	
	Inventory		1 500
31	Rent Expense	24 000	
	Prepaid Rent Expense		24 000
31	Inventory Write-Down	2 800	
	Inventory		2 800

- One mark was awarded for Accrued Wages \$400.
- One mark was awarded for Wages Expense \$400.
- One mark was awarded for Unearned Sales Revenue \$500.

- One mark was awarded for Accounts Receivable \$2 800.
- One mark was awarded for Sales \$3 000.
- One mark was awarded for GST Clearing \$300.
- One mark was awarded for Cost of Sales \$1 500.
- One mark was awarded for Inventory \$1 500.
- One mark was awarded for Rent Expense \$24 000.
- One mark was awarded for Prepaid Rent Expense \$24 000.
- One mark was awarded for Inventory Write-Down \$2 800.
- One mark was awarded for Inventory \$2 800.

Question 6b.

This question required students to close the revenue account and adjust the sales to allow for the credit sales of the Turbo Booster on 28 March.

General Journal

Date 2025	Details	Debit	Credit
Mar 31	Sales	468 000	
	Profit and Loss Summary		468 000

- One mark was awarded for Sales \$468 000.
- One mark was awarded for Profit and Loss Summary \$468 000.

Higher-scoring responses used the information provided in the Trial Balance and the entry that was recorded for the sale, including a deposit to calculate the correct sales amount.

Lower-scoring responses reversed the entry or did not include the adjustment from Question 6a.

Question 6c.

This question required students to prepare an Income Statement, up to and including Adjusted Gross Profit for the quarter.

AutoStuff4U

Income Statement (extract) for the quarter ended 31 March 2025

	\$	\$
Revenue		
Sales		468 000
less Cost of Goods Sold		
Cost of Sales	206 500	
Buying Expenses	4 000	210 500
Gross Profit		257 500
less Inventory Write-Down		2 800
Adjusted Gross Profit		254 700

- One mark was awarded for Sales \$468 000.
- One mark was awarded for Cost of Sales \$206 500 and Buying Expenses \$4 000.
- One mark was awarded for Inventory Write-Down \$2 800.
- One mark was awarded for the format, including totals.

Higher-scoring responses correctly allocated the revenue and expense accounts.

Lower-scoring responses did not include the buying expenses, as it is a cost incurred to get inventory into a condition and location ready for sale that cannot be logically allocated to an item of inventory. Lower-scoring responses did not accurately use the format of the report.

Question 7a.

This question required students to distinguish between Gross Profit Margin and Net Profit Margin.

Marks	Criteria
4	Detailed explanation of the relationship between Net Profit Margin and Gross Profit Margin Accurate use of accounting terminology
3	Basic description of the relationship between Net Profit Margin and Gross Profit Margin
1–2	Definition of Net Profit Margin and/or Gross Profit Margin

Gross Profit Margin represents the gross profit retained from each dollar of sales. It shows the markup that is used by the business, while the Net Profit Margin represents the profit retained from each dollar of sales. Net Profit Margin takes into account inventory write-down, inventory loss or gain, other revenue and other expenses. Net Profit Margin is an indicator of expense control and will always be lower than Gross Profit Margin.

Higher-scoring responses provided definitions of Gross Profit Margin and Net Profit Margin and distinguished between the two. Students were not required to use the information provided, although those who supported their responses using this information provided a complete response.

Lower-scoring responses provided definitions of Gross Profit Margin and Net Profit Margin but did not distinguish between them.

Question 7b.

This question required students to use the table and graph provided in the question to explain why profit was increasing for the business despite sales decreasing.

During the second quarter, the Net Profit increase was due solely to a rise in the Gross Profit Margin. This increase could be due to increasing the selling price, obtaining cheaper inventory and/or negotiating lower suppliers' prices (e.g. through a bulk one-off special purchase). Operating expenses were unchanged, at 23% of sales (Gross Profit Margin less Net Profit Margin).

In the third quarter, Net Profit increased by reducing operating expenses from 23% to 20% of sales, which more than offset Gross Profit Margin dropping back to 50% and a lower sales volume.

In the fourth quarter, Net Profit increased solely due to Gross Profit Margin rising slightly (from 50% to 51%), which indicates that the business obtained cheaper supplies of inventory or was able to increase prices. Expenses were unchanged, at 20% of sales.

- One mark was awarded for increase in Gross Profit Margin.
- One mark was awarded for the increase being due to an increase in selling price or a decrease in cost price of inventory.
- One mark was awarded for Net Profit Margin increasing at a greater rate than the Gross Profit Margin.
- One mark was awarded for improved expense control.

Higher-scoring responses identified that the business had improved its expense control while also improving its Gross Profit Margin. They made connections relating to the revenue and expenses of the business and extrapolated these into examples such as the business purchasing cheaper inventory or reducing expenses such as wages or utilities.

Lower-scoring responses often simply repeated the information without discussing the connections between the revenue and expenses to explain the increasing profits.