



Mark Scheme

April 2017
Results

Pearson LCCI Cost and Management
Accounting L3 (ASE20098)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidate's fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions, full marks can be awarded where correct answer is seen with no workings shown, unless the question states that candidates must provide workings.

Question Number	Answer (AO1) 2	Mark
1(a) (i)	Award 1 mark for each description. Material wastage: Unavoidable waste of material due to the conversion process.(1)	(1)

Question Number	Answer (AO1) 2	Mark
1(a) (ii)	Award 1 mark for each description. Product rejection:Products, completely or partially completed, rejected as a result of an inspection system.(1)	(1)

Question Number	Answer (AO1) 2	Mark
1 (b)	Award 1 mark for each benefit. Max 2 Helps planning Aids control of business Allows managers to monitor/check details Motivates staff to achieve targets Communicates the company's intentions Allocates resources to where they are needed Co-ordinates activities	(2)

Question Number	Answer (AO2) 2	Mark															
1(c)	Award 1 mark for Product A and 1 mark for Product B. Production budget(units) <table> <tr> <td></td><td>A</td><td>B</td></tr> <tr> <td>Sales</td><td>8 000</td><td>15 000</td></tr> <tr> <td>less opening inventory</td><td>(400)</td><td>(800)</td></tr> <tr> <td>add closing inventory</td><td><u>500</u></td><td><u>1 000</u></td></tr> <tr> <td>Production budget (good units)</td><td><u>8 100</u> (1)</td><td><u>15 200</u> (1)</td></tr> </table>		A	B	Sales	8 000	15 000	less opening inventory	(400)	(800)	add closing inventory	<u>500</u>	<u>1 000</u>	Production budget (good units)	<u>8 100</u> (1)	<u>15 200</u> (1)	(2)
	A	B															
Sales	8 000	15 000															
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Question Number	Answer (AO2) 8	Mark															
1 (d)	<p>Award 6 marks for answers and 2 marks for method.</p> <p>Material requirement budget (kg)</p> <p>Raw material (kg)</p> <p>Product RM1</p> <p>A (8 100/0.9) 9 000 of x (4/0.8) 5 (of) 45 000(1of)</p> <p>B (15 200/0.95) 16 000 of x (2/0.8) 2.5 (1of) <u>40 000(1of)</u></p> <p style="text-align: right;"><u>85</u></p> <p>000(1of)</p> <p>Product RM1</p> <p>A (8 100/0.9) 9 000 x (2/0.8) 2.50 (of) 22 500(1of)</p> <p>B (15 200/0.95) 16 000 x (1/0.8) 1.25 (1of) <u>20 000(1of)</u></p> <p style="text-align: right;"><u>42 500(1of)</u></p> <p>Alternative answer:</p> <table border="1"> <thead> <tr> <th></th><th>Product RM001</th><th>Product RM002</th></tr> </thead> <tbody> <tr> <td>Raw Materials RM001</td><td>36 000(1)</td><td>18 000(1)</td></tr> <tr> <td>Raw Materials RM002</td><td>32 000(1)</td><td>16 000(1)</td></tr> <tr> <td>Wastage</td><td>17 000(1)</td><td>8 000(1)</td></tr> <tr> <td>Total</td><td>85 000(1)</td><td>42 500(1)</td></tr> </tbody> </table>		Product RM001	Product RM002	Raw Materials RM001	36 000(1)	18 000(1)	Raw Materials RM002	32 000(1)	16 000(1)	Wastage	17 000(1)	8 000(1)	Total	85 000(1)	42 500(1)	(8)
	Product RM001	Product RM002															
Raw Materials RM001	36 000(1)	18 000(1)															
Raw Materials RM002	32 000(1)	16 000(1)															
Wastage	17 000(1)	8 000(1)															
Total	85 000(1)	42 500(1)															

Total for Question 1 = 14 marks

Question Number	Answer 2 (AO2) 4	Mark
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2(a) (i)	Award 1 mark for each contribution figure.				
		\$000	\$000	\$000	\$000
	Product	A	B	C	Total
	Sales	100	80	60	240
	Direct material	30	28	15	
	Direct labour	<u>20</u>	<u>24</u>	<u>15</u>	
	Variable cost	<u>50</u>	<u>52</u>	<u>30</u>	<u>132</u>
	Contribution	50 [10]	28 [7]	30 [10]	108
	Cont to sales ratio	50% (1)	35% (1)	50% (1)	45% (1)
					(4)

Question Number	Answer (AO2)2	Mark
2(a) (ii)	Award 1 mark for break-even point and 1 mark for method. Break-even revenue = \$54 000 / 0.45 (1) of = \$120 000 (1of)	(2)

Question Number	Answer (AO3) 7	Mark
2(b)	<p>Award 1 mark each for the three lines on the chart.(3) Award 1 mark for each point identified. (4)</p> <p>Chart Labelled axes (1) Sales line (1) Total cost line (1) Variable cost line (1)</p> <p>Break-even revenue (1) Margin of safety (1) Contribution area (1)</p> <p>The chart illustrates the relationship between sales volume, sales revenue, total costs, and variable costs. The Y-axis represents 'Costs and revenue (£000)' ranging from 0 to 250 in increments of 50. The X-axis represents 'Sales volume (units 000)' ranging from 0 to 12 in increments of 1. The Sales line (blue) starts at the origin (0,0) and reaches 240,000 at a sales volume of 12. The Total Costs line (green) starts at 50,000 on the Y-axis and reaches 186,000 at a sales volume of 12. The Variable costs line (red) starts at the origin (0,0) and reaches 132,000 at a sales volume of 12. The Break-even point is identified at a sales volume of 6 units, where the Sales line and Total Costs line intersect, corresponding to a revenue of 120,000. The Contribution Area is the triangular region bounded by the Sales line, the Variable costs line, and the Y-axis. The Margin of Safety is indicated as the horizontal distance between the Break-even point (at 6 units) and the current sales volume (at 12 units).</p>	(7)

Question Number	Answer (AO2) 4	Mark																																																												
2(c)	<p>Award 3 marks for contribution calculation and 1 mark for overall contribution method.</p> <table><tr><td></td><td>\$000</td><td>\$000</td><td>\$000</td><td>\$000</td><td></td></tr><tr><td>Product</td><td>A</td><td>B</td><td>C</td><td>Total</td><td></td></tr><tr><td>Sales</td><td>100</td><td>60</td><td>90</td><td>250</td><td></td></tr><tr><td>Direct material</td><td>30</td><td>21</td><td>22.5</td><td></td><td></td></tr><tr><td><u>\$116 000</u></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Direct labour</td><td><u>20</u></td><td><u>18</u></td><td><u>22.5</u></td><td></td><td></td></tr><tr><td>\$250 000 (1)</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Variable cost</td><td><u>50</u></td><td><u>39</u></td><td><u>45</u></td><td><u>134</u></td><td></td></tr><tr><td>Contribution</td><td>50</td><td>21 (1)</td><td>45 (1)</td><td>116</td><td>=</td></tr><tr><td>46.4% (1)</td><td></td><td></td><td></td><td></td><td></td></tr></table> <p>Alternative answer:</p> <p><u>(\$10 x 5 000) + (\$7 x 3 000) + (\$10 x 4 500) = \$116 000</u></p> <p><u>(\$20 x 5 000) + (\$20 x 3 000) + (\$20 x 4 500) = \$250 000 = 46.4%</u></p> <p>(1) (1) (1)</p> <p>(1)</p>		\$000	\$000	\$000	\$000		Product	A	B	C	Total		Sales	100	60	90	250		Direct material	30	21	22.5			<u>\$116 000</u>						Direct labour	<u>20</u>	<u>18</u>	<u>22.5</u>			\$250 000 (1)						Variable cost	<u>50</u>	<u>39</u>	<u>45</u>	<u>134</u>		Contribution	50	21 (1)	45 (1)	116	=	46.4% (1)						(4)
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Question Number	Answer (AO1) 4	Mark
2 (d)	<p>Award 1 mark for each assumption.</p> <p>Can we be sure that the advertising will generate a 50% sales increase for product C (1)</p> <p>Contribution/sales (c/s) ratio has improved since more product C (which has a higher c/s ratio) is being sold so less sales in total would be required to generate total contribution. (1)</p> <p>However fixed costs have increased so new break-even point is $64,000/0.464 = \\$137,931$ which is an increase. (1)</p> <p>So Triple Products would need to assess whether the change of mix is likely to be achieved. (1)</p> <p>Original profit is \$54 000. New profit would be \$52 000 (1) therefore do not take on the new alternative (1)</p>	(4)

Total for Question 2 = 21 marks

Question Number	Answer (AO2) 6	Mark
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3 (a) (i)	<p>Award 6 marks for calculations.</p> <p>Costs of production = 6+6+18+2 = \$32 per unit (1)</p> <p>Production units (6 months) Sales 3 100 less opening inventory 300 plus closing inventory 200 (1) = 3 000 (1)</p> <p>Actual cost of production (6 months) \$ [DM A 18 000 + DM B 18 000 + DL 54 000 + Var Oh 6 000]</p> <p>Variable cost (3 000 (of) x 32) 96 000 (1of) Fixed costs (48 000/2) <u>24 000</u> (1) Total cost <u>120 000</u> (1of)</p>	(6)
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Question Number	Answer (AO2) 4	Mark						
3 (a) (ii)	<p>Award 4 marks for calculations.</p> <p>Over/under absorption of fixed overheads</p> <table><tr><td>Actual fixed overheads</td><td>24 000 (of)</td></tr><tr><td>Overheads absorbed (3 000 (of) x \$5 x 1.5)</td><td><u>22 500</u> (1of)</td></tr><tr><td>Under absorbed</td><td><u>1 500</u> (1of)</td></tr></table> <p>Must be correct under or over absorption for the final mark.</p> <p>Workings</p> <p>Labour time for one unit = 1.50 hours x budgeted output</p> <p>6 400 units = Total budgeted hours 9 600 hours (1)</p> <p>Budgeted fixed overheads \$48 000 / 9 600 =</p> <p>Fixed production overhead absorption rate \$5.00 (1)</p> <p>Note:</p> <p>\$22 500 or OF to be carried down to 3b</p> <p>\$1 500 or OF to be carried down to 3b</p>	Actual fixed overheads	24 000 (of)	Overheads absorbed (3 000 (of) x \$5 x 1.5)	<u>22 500</u> (1of)	Under absorbed	<u>1 500</u> (1of)	(4)
Actual fixed overheads	24 000 (of)							
Overheads absorbed (3 000 (of) x \$5 x 1.5)	<u>22 500</u> (1of)							
Under absorbed	<u>1 500</u> (1of)							

Question Number	Answer (AO2) 7	Mark																														
3(b)	<p>Award 7 mark for calculations.</p> <p>Trading Account (6 months) - absorption costing</p> <table> <tr> <td></td><td>\$</td><td>\$</td></tr> <tr> <td>Revenue (3 100 x 80)</td><td></td><td>248 000</td></tr> <tr> <td>Opening inventory (300 x 39.50)</td><td>11 850 (1of)</td><td></td></tr> <tr> <td>Cost of production (3 000 x 39.50)</td><td>118 500 (1of)*</td><td></td></tr> <tr> <td>less closing inventory (200 x 39.50)</td><td><u>(7 900) (1of)</u></td><td></td></tr> <tr> <td>Cost of sales</td><td></td><td><u>122 450</u></td></tr> <tr> <td>Gross profit before adjustment</td><td></td><td>125 550</td></tr> <tr> <td>less under absorbed overheads</td><td></td><td><u>1 500</u></td></tr> <tr> <td>*(1of)</td><td></td><td></td></tr> <tr> <td>Gross profit (1of)</td><td></td><td><u>124 050</u></td></tr> </table> <p>Workings: Unit cost of production \$32 (of) + (1.5hrs x \$5 per lab hr) + \$7.50 (1) = \$39.50 (1)</p> <p>* Must include fixed overheads for the gross profit OF in trading account * Must include absorbed overhead figure for gross profit.</p>		\$	\$	Revenue (3 100 x 80)		248 000	Opening inventory (300 x 39.50)	11 850 (1of)		Cost of production (3 000 x 39.50)	118 500 (1of)*		less closing inventory (200 x 39.50)	<u>(7 900) (1of)</u>		Cost of sales		<u>122 450</u>	Gross profit before adjustment		125 550	less under absorbed overheads		<u>1 500</u>	*(1of)			Gross profit (1of)		<u>124 050</u>	(7)
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Question Number	Answer (AO2) 4	Mark
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3(c)	<p>Award 1 mark for each of the points below. Award 2 marks for 99 200 (1 mark for both inventories/1 mark for cost of production)</p> <p>Gross profit calculation using marginal costing.</p> <table> <tr><td></td><td>\$</td><td></td></tr> <tr><td>Absorption costing profit</td><td>124 050</td><td></td></tr> <tr><td>add fixed element of opening inventory (300x\$7.50)</td><td>2 250</td><td></td></tr> <tr><td>(1)</td><td></td><td></td></tr> <tr><td>less fixed element of closing inventory (200x\$7.50)</td><td><u>(1 500)</u></td><td></td></tr> <tr><td>(1)</td><td></td><td></td></tr> <tr><td>Marginal costing profit</td><td>124 800</td><td></td></tr> <tr><td>(1)</td><td></td><td></td></tr> </table> <p>Workings: Fixed cost element = \$39.50 - \$32.00 = \$7.50 (1)</p> <p>Alternative answer:</p> <table> <tr><td>Revenue (3 100 x 80)</td><td>248 000</td><td></td></tr> <tr><td>Opening inventory (300 x 32.00)</td><td>9 600</td><td></td></tr> <tr><td>Cost of production (3 000 x 32.00)</td><td>96 000</td><td></td></tr> <tr><td>less closing inventory (200 x 32.00)</td><td><u>(6 400)</u></td><td></td></tr> <tr><td>Cost of sales (3 100 x 32.00)</td><td><u>(99 200)</u></td><td>(2)</td></tr> <tr><td></td><td>144 800</td><td></td></tr> <tr><td>Less fixed overheads</td><td><u>24 000</u></td><td></td></tr> <tr><td>(1)</td><td></td><td></td></tr> <tr><td>Gross profit</td><td><u>124 800</u></td><td></td></tr> <tr><td>(1of)</td><td></td><td></td></tr> </table> <p>* Must include fixed overheads for the gross profit OF in trading account</p>		\$		Absorption costing profit	124 050		add fixed element of opening inventory (300x\$7.50)	2 250		(1)			less fixed element of closing inventory (200x\$7.50)	<u>(1 500)</u>		(1)			Marginal costing profit	124 800		(1)			Revenue (3 100 x 80)	248 000		Opening inventory (300 x 32.00)	9 600		Cost of production (3 000 x 32.00)	96 000		less closing inventory (200 x 32.00)	<u>(6 400)</u>		Cost of sales (3 100 x 32.00)	<u>(99 200)</u>	(2)		144 800		Less fixed overheads	<u>24 000</u>		(1)			Gross profit	<u>124 800</u>		(1of)			(4)
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Question Number	Answer (AO3) 3	Mark
3(d)	<p>Award 1 mark for each of the points below.</p> <p>Absorption costing shares the fixed costs between all units of production. (1)</p> <p>Marginal costing only includes the variable costs when calculating the cost of a unit of product. (1)</p> <p>The fixed costs are matched with the accounting period in which they occur, rather than with particular units. (1)</p>	(3)

Total for Question 3 = 24 marks

Question Number	Answer (AO2) 14	Mark																																																
4(a)	<p>Award 1 mark for each cost and revenue, and 1 mark for each variance. Award marks high/low working</p> <table><tr><td></td><td>Actual</td><td>Budget</td><td>Variance</td></tr><tr><td>Prod/sales units</td><td>3 800</td><td>3 800</td><td></td></tr><tr><td>Sales revenue (1of)</td><td>84 000</td><td>85 500(1)</td><td>1 500 Adv</td></tr><tr><td>Direct materials (1of)</td><td>14 900</td><td>15 200 (1)</td><td>300 Fav</td></tr><tr><td>Direct labour (1of)</td><td>11 800</td><td>11 400 (1)</td><td>400 Adv</td></tr><tr><td>Prod overheads (1of)</td><td>19 700</td><td>19 500 (3)</td><td>200 Adv</td></tr><tr><td>Admin overheads (1of)</td><td>10 100</td><td>10 300 (2)</td><td>200 Fav</td></tr><tr><td>Total costs</td><td><u>56 500</u></td><td><u>56 400</u></td><td></td></tr><tr><td>Profit (1of)</td><td>27 500</td><td>29 100</td><td>1 600 Adv</td></tr></table> <p>Workings</p> <p>Sales revenue = 3 800 x (81 000/3 600) = \$85 500 Direct materials = 3 800 x (14 400/3 600) = \$15,200 Direct labour = 3 800 x (10 800/3 600) = \$11 400</p> <table><tr><td>Production overheads</td><td>Costs</td><td>Units</td></tr><tr><td></td><td>High 20 000</td><td>4 000</td></tr><tr><td></td><td>Low <u>19 000</u></td><td><u>3 600</u></td></tr><tr><td></td><td>Diff 1 000</td><td>400</td></tr></table> <p>Therefore VC = 1 000 / 400 = \$2.50 per unit(1) 20 000 = FC + 20 000 + 4 000 x \$2.50 Therefore FC = 20 000 – 10 000 = \$10 000 (1) Production overheads = \$10 000 + 3 800 x \$2.50 = \$19 500 (1)</p> <p>Administration VC = (10 000 – 4 600)/3 600 = \$1.50 per unit(1) = \$4 600 + (3 800x\$1.50) = \$10 300 (1)</p>		Actual	Budget	Variance	Prod/sales units	3 800	3 800		Sales revenue (1of)	84 000	85 500(1)	1 500 Adv	Direct materials (1of)	14 900	15 200 (1)	300 Fav	Direct labour (1of)	11 800	11 400 (1)	400 Adv	Prod overheads (1of)	19 700	19 500 (3)	200 Adv	Admin overheads (1of)	10 100	10 300 (2)	200 Fav	Total costs	<u>56 500</u>	<u>56 400</u>		Profit (1of)	27 500	29 100	1 600 Adv	Production overheads	Costs	Units		High 20 000	4 000		Low <u>19 000</u>	<u>3 600</u>		Diff 1 000	400	(14)
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	Diff 1 000	400																																																

Question Number	Answer (AO4) 2 (AO5) 2	Mark
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4(b)(i)	Award 1 mark for analysing variance.(AO4) Award 1 mark for conclusion. (AO5) Direct material: Favourable variance is due to lower material price (1) as material usage was as expected for the output.(1) Direct labour: Adverse variance is due to higher labour rate of pay (1) as labour hours were as expected for the output. (1)	(4)
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Question Number	Answer (AO5) 4	Mark
4(b)(ii)	Award 2 marks for each action. Direct material: Liaise with purchasing department(1) to include in the budget up-to-date(lower) material prices.(1) Direct labour: Liaise with human resources department (1) to include in the budget more up to date pay scales. (1)	(4)

Total for Question 4 = 22 marks

Question Number	Answer (AO1) 2	Mark
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5(a)	Award 1 mark for each point. Process costing is a costing method used where it is not possible to identify separate units of production, or jobs (1) because of the continuous nature of the production process involved.(1)	2
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Question Number	Answer (AO2) 7	Mark																																
5(b) (i)	<p>Award 1 + 1 mark for each correct equivalent units. Award 1 mark for each unit cost figure. Award 1 mark for correct calculation of abnormal loss.</p> <p>Table of equivalent units</p> <table><tr><td></td><td>Material</td><td>Labour</td><td>Overheads</td></tr><tr><td>Finished inventory</td><td>7 000</td><td>7 000</td><td>7 000</td></tr><tr><td>Abnormal loss</td><td>400</td><td>400</td><td>400 (1)</td></tr><tr><td>Closing inventory</td><td>500</td><td>300</td><td>300</td></tr><tr><td>Opening inventory</td><td>(800)</td><td>(400)</td><td>(400)</td></tr><tr><td>Equivalent units</td><td>7 100(1)</td><td>7 300</td><td>7 300 (1)</td></tr><tr><td>Cost</td><td>\$35 500</td><td>\$14 600</td><td>\$17 520 (1)</td></tr><tr><td>Unit cost</td><td>\$5 (1)</td><td>\$2 (1)</td><td>\$2.40 (1)</td></tr></table> <p>Workings</p> <p>Abnormal loss = 8 000+800-500-7 000-900 = 400 units</p>		Material	Labour	Overheads	Finished inventory	7 000	7 000	7 000	Abnormal loss	400	400	400 (1)	Closing inventory	500	300	300	Opening inventory	(800)	(400)	(400)	Equivalent units	7 100(1)	7 300	7 300 (1)	Cost	\$35 500	\$14 600	\$17 520 (1)	Unit cost	\$5 (1)	\$2 (1)	\$2.40 (1)	(7)
	Material	Labour	Overheads																															
Finished inventory	7 000	7 000	7 000																															
Abnormal loss	400	400	400 (1)																															
Closing inventory	500	300	300																															
Opening inventory	(800)	(400)	(400)																															
Equivalent units	7 100(1)	7 300	7 300 (1)																															
Cost	\$35 500	\$14 600	\$17 520 (1)																															
Unit cost	\$5 (1)	\$2 (1)	\$2.40 (1)																															

Question Number	Answer (AO2)3	Mark
5(b)(ii)	Award 3 marks for calculations. Opening work-in progress completed $\$12\,000 + \$1\,720 [(800-400) = 400 \times (2.00+2.40) \$4.40] = \mathbf{\$13\,760}$ (1) Closing work-in progress $(500 \times \$5) \$2\,500 \text{ (of)} + £1\,320 \text{ (of)} [300 \times (2.00+2.40)](1)$ $= \mathbf{\$3\,820}$ (1)	(3)

Question Number	Answer (AO2)2	Mark
5(b) (iii)	<p>Award 3 marks for calculations.</p> <p>Transfer to finished goods $\\$13\,760 (1\text{of}) + \\$58\,280 [(7\,000-800) 6\,200 \times \\$9.40 \text{ of}](1) =$ \$72 040 (1)</p> <p>Alternative answer</p> <p>$31\,000 + 13\,200 + 15\,840 + 12\,000 = 72\,040$</p>	(3)

Question Number	Answer (AO1) 2 (AO3)2	Mark
5(c)	<p>Award 1 mark for each for each control and 1 mark for the expansion of the control.</p> <p>Authorisation (1): Information must only be provided to employees of the organisation (e.g. access to files) who need it to complete the task they are employed for. (1)</p> <p>Limitations (1): The most sensitive business files should be protected by the access limitations (e.g. passwords), which prevent intrusion of unauthorised personnel or outsiders. (1)</p>	(4)

Total for Question 5 = 19 marks