



The Institute of Chartered Accountants of India

Code: IN5AE366557
Subject: 05 Auditing and Ethics

Total Marks: 70
Marks Obtained: 50

Paper No. 5

Subject: Auditing and Ethics

Number of Answer Books used: Main + 3 additional sheets

Date Seal: 19 JAN 2025

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ICAI Seal: THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, JANUARY, 2025

Paper Code: C
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1

MCQ Booklet Serial No. 2830366

Paper No. (See Reverse) 6

Level of Exam → 1 Intermediate ● Final 2

Stream → 2 Old 1 New ●

Answers

1	A B C ●	11	A B ● D	21	A B C D
2	A B ● D	12	A B ● D	22	A B C D
3	● B C D	13	A ● C D	23	A B C D
4	● B C D	14	A B C ●	24	A B C D
5	● B C D	15	A B ● D	25	A B C D
6	A B C ●	16	A B C D	26	A B C D
7	A B ● D	17	A B C D	27	A B C D
8	A B C ●	18	A B C D	28	A B C D
9	A B C ●	19	A B C D	29	A B C D
10	● B C D	20	A B C D	30	A B C D

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page and question number prominently written at the

er should be distinctly written in the margin.

ully completed in one page or in a consecutive set of pages,

the space provided for the purpose or writing distinguishing mark,

o", etc., will tantamount to adoption of "unfair means"

ok to the invigilator take care to score out (X) blank pages, if any, that you

INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

Instructions to Darken the appropriate Circle.

When the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation

candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.

Darken the complete circle.

If you want to change your Answer, erase the all darkened circle completely and make a fresh mark.

Please do NOT make any stray marks on the OMR cover page.

Rough work must NOT be done on the OMR cover page.

7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD: (A) ● (C) ● (D) ●

WRONG METHOD: (A) ✗ (C) ✗ (D) ✗

LIST OF EXAM, PAPER NO. AND PAPER NAME (TO BE REFERRED TO FOR FILLING ON THE REVERSE SIDE)

Q. No.	To be ticked (✓) by the candidate against the Questions answered Descriptive Type	EXAM	PAPER NO.	PAPER NAME
1		Intermediate (IPC) - Old course		
		Intermediate (IPC) - (OLD COURSE)	2	BUSINESS LAWS, ETHICS AND COMMUNICATION
2		Intermediate (IPC) - (OLD COURSE)	4	TAXATION
3		Intermediate (IPC) - (OLD COURSE)	6	AUDITING AND ASSURANCE
4		Intermediate (IPC) - (OLD COURSE)	7	INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT
		Intermediate - New		
5		Intermediate - (NEW COURSE)	2	CORPORATE AND OTHER LAWS
6		Intermediate - (NEW COURSE)	4	TAXATION
7		Intermediate - (NEW COURSE)	6	AUDITING AND ASSURANCE
8		Intermediate - (NEW COURSE)	7	ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT
		Final - Old		
9		FINAL - (OLD COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
10		FINAL - (OLD COURSE)	4	CORPORATE AND ALLIED LAWS
11		FINAL - (OLD COURSE)	6	INFORMATION SYSTEMS CONTROL AND AUDIT
12		FINAL - (OLD COURSE)	7	DIRECT TAX LAWS
13		FINAL - (OLD COURSE)	8	INDIRECT TAX LAWS
		Final - NEW		
14		FINAL - (NEW COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
		FINAL - (NEW COURSE)	4	CORPORATE AND ECONOMIC LAWS
		FINAL - (NEW COURSE)	7	DIRECT TAX LAWS AND INTERNATIONAL TAXATION
		FINAL - (NEW COURSE)	8	INDIRECT TAX LAWS
Total				

No Marks for this page



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1 **R** **3a**

Answer to Question - 3(a)

According to AS-26, the cost of intangible assets shall be recognised as an asset by the company. ~~if the~~

The expenditures are generally incurred in two phases:-

i- Research phase

ii Development phase.

1 **R** **3aStep1**

According to the standard, the ~~cost~~ expenditures incurred during the research phase shall be charged to the statement of profit and loss when they are incurred and are not recognised as an intangible asset.

However, the expenditures incurred during the development phase shall be capitalised as an intangible asset. **[3-3a-1]**



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There may be a situation when the intangible asset is acquired in the form of a tangible gadget (for eg. pendrive for a software)

In such situation, the enterprise shall record the ~~cost~~ ^{expenditure} incurred as an intangible asset if the value of tangible portion is insignificant.

However, if the software is an integral part of the asset, then it should be recognized as a tangible asset.

In the instant case, Pen Ricinate Ltd recognized the cost of research as an expenditure asset, which is not in line with the accounting standard, therefore, inappropriate.

Recognition of the software by the company is, however, appropriate since it is not an integral part of the hardware.
[Continued in sheet 3]



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Answers to Question- 3(b)

(i) According to SA 570, the objective of the auditor is -

- i- To perform to obtain sufficient appropriate audit and to conclude on the use of appropriateness of the use of going concern assumption by the management in the preparation of the financial statements. ✓
- ii To conclude on whether there exists a material uncertainty regarding the outcome of events and conditions that casts a significant doubt on the entity's ability to continue as a going concern. ✓
- iii To Report in accordance with SA 570. ✓

In the instant case, the likely purpose **No Marks for this page** obtain sufficient and appropriate audit evidence regarding the management's



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use of going concern, by studying the cash flow forecast.

(ii) - According to SA 570, the auditor shall perform the following audit procedures (regarding cash flow forecast) to obtain sufficient appropriate audit evidence about going concern.

- Where the entity has prepared a cash flow forecast, ^{analysis of} ~~study of~~ the cash flow forecast is a significant factor in obtaining evidence regarding going concern.

The auditor shall -

- 2** **R** i - Evaluate the reliability of the data underlying such forecast. ☒
- 3bStep2 ii - Determine whether there is adequate support for the assumptions ~~taken~~ taken. ☒

CAZ shall perform these procedures. [3-3b:5]



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	R	
1	3c	<u>Answer to Question - 3c)</u>
		i- The auditor shall
		i- When the auditor disclaims an opinion, the auditor report shall not <u>restate</u> amend the auditor's responsibility paragraph and include the following
		a- The responsibility of the auditor is to <u>form an opinion on the financial statement</u> by
		b- A statement that, because of the matters stated in the 'Basis for disclaimer of opinion' para, the auditor was unable to obtain sufficient appropriate audit evidence.
1	3cStep1	c- State that the auditor is <u>fulfills independent of the entity</u> <u>and</u> <u>complies with the ethical requirements</u> [3-3c:1]



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The follow

When the auditor disclaims an opinion, the auditor's report shall not contain the 'Key audit matters' paragraph as per SA 705.

The following amendments shall be made in the 'Basis for opinion' para.

i - In the basis for opinion para, state that the auditor do not express ~~an~~ opinion on the financial statement.

ii - The statement referring to the part of the auditor's report where the responsibility of the auditor are stated shall not be included.

iii - amend the statement 'we audited the financial statement ...' to 'we were engaged to audit the financial statement'.

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These amendments shall be made by Singh and associates in their report

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5 R 4a

Answer to Question - 4ca)

According to [SA-610], the auditor may choose to use the work of ~~an~~ the internal auditor or to use his direct assistance in performing audit procedures.

Though, the procedures performed by the internal auditor and the external auditor are similar, the use of an internal auditor's work will not dispense the auditor from his responsibilities in the audit. ☒

This is because the internal auditor is not independent of the entity and therefore, cannot be held responsible for the work that is required to be performed by an independent auditor.

In the instant case, the engagement partner of P&R and Co. took direct assistance regarding ageing of trade receivables from the internal auditor.

No Marks for this page



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It is the responsibility of the auditor to direct and supervise the internal auditor and therefore, the internal auditor cannot be held responsible for not performing the work properly.

2

R

4aStep1



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According to SA 610, the auditor shall, before using the work of internal auditor, consider the following factors -

i- The extent to which the internal auditor ~~status in the~~ organisational status and related policies allow objectivity of the internal auditor.

3

R

4aStep2



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ii The level of competence



iii The use of a scientific and disciplined approach in performing the work



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PART C shall [4-4a:5] consider these factors upon relying on the internal auditor's work



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Barcode

4 R 4b

Answer to Question - 4(b)

Assertion

Assertions are representations made by the management involving in the financial statements that are considered by the auditor in evaluating potential misstatements.

(i) - The auditor is checking occurrence.
whether the expenditure ~~incurred~~ ^{recorded} has actually incurred during the period. ☒

(ii) - The auditor is checking completeness of Inventory.
whether all the ^{amount} items that are should have been recorded, have been recorded. ☒

(iii) - The auditor is checking 'Measurement' of sales. ☒

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whether the amounts included



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are correct and accurate.

(iv) - The auditor is checking the
1 Rights and obligation assertion

Whether the ~~asset~~ asset is
owned and controlled by
the entity and liabilities are
obligations of the entity.

4

R

4bStep1

(v) The auditor is checking valuation
of Inventory.

Whether the assets and liabilities
are included at correct value and
not under/over stated.

[4-4b:4]



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4

R

4c

Answer to Question - 4cc

According to [SA 706], the auditor may include an Emphasis of matter paragraph in the audit report to highlight the matters already presented and disclosed in the financial statement, that are in the auditor's judgement, significant for the correct understanding of the financial statement.



In the instant case, there is an appeal pending by the company against a litigation, for which, disclosures have already been made in the financial statement.

The auditor may include an 'Emphasis of matter' paragraph and report the details about the appeal under that paragraph.

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The auditor shall include the emphasis of matter paragraph by following the steps -

i- Include a separate paragraph with the heading 'emphasis of matter' ~~para~~



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ii- State that these are the matters already disclosed in the financial statement that are in the auditor's judgment significant and of such understanding of the financial statement

R

4

4cStep1



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iii- State that the auditor's opinion is not modified because of this matter.

R

13

4



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In this way, the audit team leader may report the matter in the audit report.

[4-4c:4]

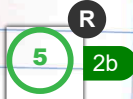


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Answer to Question - 2(b)

(i) - Self Review Threat -

Arises when the auditor has to review a judgement or a decision already made.

(ii) - Self-Interest Threat

When the engagement partner or the member has a direct or indirect financial interest in the client's business.

(iii) - Familiarity Threat

When the auditor forms such relationships with the client that end up being too sympathetic with the client's interest.

Accepting hospitality from the client gives rise to this threat.

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(iv) - Intimidation Threat

When the auditor is deterred from performing his duties, threatening the auditor by Mr. Chakraborty gives rise to intimidation threat



(v) - Advocacy Threat

When the auditor promotes, or is perceived to promote the client's opinion,

3
R
2bStep1

Being an arbitrator for a dispute gives rise to this threat



(vi) - Self Interest Threat

When the engagement partner or members have a direct or indirect financial interest in client's business.

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Accepting contingent fees gives rise to such threat.

When threats exist, the auditor shall apply safeguards in order to reduce the threats to an acceptably low level. ☒

The auditor shall perform the following -

- i- The public shall have confidence in the audit and the auditor should 'be' and 'appear' to be independent.
- ii The auditor shall conscientiously look for any threats to independence.
- iii If threats are identified, the auditor shall abstain from the task or, shall apply safeguards to reduce the threats to an acceptable level.

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(9v) - If threats cannot be reduced, or eliminated, the auditor shall withdraw from the engagement. ✓

2 R 2bStep2

4 R 2c

1 R 2cStep1

Answer to Question - 2(c)

According to [SA 500], 'audit evidence', the auditor shall obtain an audit evidence which is both, sufficient and appropriate. ✓

The auditor may ensure the sufficiency of audit evidence from the following factors

- i - Materiality
- ii Risk of material misstatement
- iii Size and nature of population

[2-2b:5]

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i- Materiality -

Refers to the significance of the item for which audit evidence is obtained, for the user. ☒

If the assertion is more material, the more audit evidence would be required by the auditor.

ii- Risk of material misstatement

The risk of material misstatement of the item directly increases the sufficiency. ☒

Inherent Risk - The susceptibility of an assertion to a misstatement without considering the related controls.

Control Risk - The risk that ^{Internal Control} errors or misstatements may not be prevented, detected, or corrected in time on a timely basis.

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iii Size and Nature of population

in audit evidence would be required for a population which is homogeneous ~~or~~ not small in number.

More audit evidence would be required for heterogeneous transaction ~~or~~

3

R

2cStep2

CAN shall consider the above factor in order to insure that the evidences collected by CA PANI are ~~a~~ sufficient for the purpose of audit.

[2-2c:4]



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2a

Answers to Question-20a)

Following are the key differences between historical financial information and prospective financial information.

i- The historical financial statement ~~is~~ is based upon historical data that has already been occurred

while

Prospective financial information is forecasted information that deals with prediction about future performance. ✓

1

2aStep1

ii- The standards on Auditing (SAs) and standards on Review Engagements (SREs) deal with audit/review of historical financial information

while

Standards on assurance engagements (SAEs) deal with the ~~the~~ prospective financial information

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Distinction in assurance

1- For audit assurance related to historical financial information, the auditor provides an opinion by evaluating the information against a suitable criteria

while

1 1 2aStep2 R In case of prospective financial information, the practitioner provides assurance that nothing had come to his knowledge that would render the assumptions underlying such financial information, unreliable.

11 11 2 R

[2-2a:2,6-6a:0.0,6-6c:0.0,6-6b:0.0]



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5 R 5a

Answer to Question - 5ca)

According to SA-300, 'Planning the audit of financial statement'.

The auditor shall document the following -

- i - The ~~audit~~ overall audit strategy
- ii The audit plan
- iii any significant changes in the overall audit strategy and audit plan.

• The auditor shall document the overall audit strategy in order to record the KEY DECISIONS taken during the ~~prepare~~ audit. ☒

• The auditor shall document the audit plan, the nature, timing and extent of ~~also~~ risk assessment procedures, ☒

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Further audit procedures etc. documenting the audit plan also serves as an evidence that the audit was properly planned and performed in accordance with the standards. ☒

• The significant changes in the overall audit strategy and the audit plan shall be documented. ☒

5 **R** **5aStep1** This ensures that recording the changes helps in recording the initial plan and the final audit plan that is adopted. and ☒

How the changes in audit plan resulted ~~caused~~ changes in the nature, timing and extent of further audit procedures to be performed. ☒

~~The senior CA~~ ^{In addition} shall document, along with the changes, the overall audit plan and the audit plan. **[5-5a:5]**



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4

R

5c

Answer to Question - 5c

According to the section - 32 of the Cooperative Societies Act, a cooperative society shall may invest their funds in -

i - The securities mentioned in the 'Indian Trust Act'

ii - In the name of any other cooperative society having limited liability

iii - State or central In a cooperative bank

iv - In any other fund or security the central Government may prescribe.

In the instant case, helping hands cooperative society had some idle funds. The society invested such idle funds in some blue chip mutual funds.

No Marks for this page

3

R

5cStep1

✓

✓

✓



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According to section - 32 of the act, a cooperative society may only allocate funds in certain prescribed securities, as stated above.

Accordingly, mutual funds of a blue chip are not prescribed and therefore, the investment made by Helping Hands cooperative society is in contravention of the act section 32.

1

R

5cStep2

Because of the reasons explained, the auditor of the society expressed a Qualified opinion. [Investing funds in other than prescribed modes].

[5-5c:4]

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ADDITIONAL ANSWERS



1 R 5b

Answer to Question 5C b)

Those charged with Governance

Those charged with governance are the people on whose instructions and direction, the entity is expected to follow.

1. Those charged with Governance can be any one who holds the apparent responsibility of an entity's performance.

The auditor shall, in order to fulfill his audit objectives, identify those charged with governance whom the auditor will communicate with in accordance with various SAs.

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In case of a company, the audit committee constituted ^{will} under the companies act ~~shall~~ be 'those charged with governance', or the board of directors.

1 R 5bStep1

If the auditor cannot identify those charged with governance, he shall ~~enquire~~ obtain information from the entity about whom he communicate.

10 R 5

In the instant case of SRP Ltd, if the company has an audit committee, the committee shall be those charged with governance.

In the absence of such committee, the board of directors will be the 'those charged with governance'.

[5-5b:1]

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5 ^R 1b

Answer to Question - 1 (b)

According to SA-501, the auditor shall perform audit procedures to obtain sufficient appropriate audit evidence about whether the entity has properly 'Presented and disclosed' the segment information.

The auditor shall perform the following audit procedures:-

1- The auditor shall ^{understand} ~~evaluate~~ the methods used by the entity to ~~identify~~ identify segments - ☒

i- whether such methods require disclosure in the financial statement

2 ^R 1b Step 1

ii Just check the methods ☒

No Marks for this page

2. Apply other analytical procedures



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The auditor shall perform the following audit procedures to understand the ~~matter~~ methods of ~~identifying~~ identifying segment information ~~is~~ in accordance with the applicable ~~The allocation~~ financial Reporting framework.

The auditor shall evaluate -

i - The allocation of assets and expenses ✓

ii Sales and transfers among segments, inter segment transfers shall be eliminated ✓

iii - Consistency with prior periods and where inconsistent, it shall be disclosed ✓

iv - The ~~target~~ Budget and expected results

[1-1b:5]



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ADDITIONAL ANSWER

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Answer to Question-1(c)

No, the existence of a satisfactory control environment cannot be considered as an absolute deterrent of fraud.

The state of control environment may reduce the extent of test of controls, if the control environment is satisfactory, however, it is not correct to say that a good control environment will prevent error or fraud from happening at all.

However, if [1.1c.1] control environment is not satisfactory, it indicates that a problem exists and



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The internal control system is not working satisfactorily.

Therefore, in the instant case, the conclusion of CA Raj about the control environment is not appropriate.

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3		Barcode	
DO NOT WRITE ANYTHING HERE	3	R	1a
	<u>Answer to Question - 1 (a)</u>		
	(i)	According to SA 300, ^{Overall} audit strategy defines the scope, timing and direction of the audit <input checked="" type="checkbox"/>	
	The auditor considers the scope of audit by considering the following factors:		
	i - The nature of <u>business segments to be audited</u> <input checked="" type="checkbox"/>		
DO NOT WRITE ANYTHING HERE	ii - The <u>significant industry specific reporting requirements</u> <input checked="" type="checkbox"/>		
iii - The regulatory environment of an entity			
DO NOT WRITE ANYTHING HERE	iv - The applicable financial reporting framework		
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In the instant case, the ~~adviser~~ recent guidelines make it mandatory for all listed companies to maintain a database.

Such guidelines represents the change in regulatory environment.

2 ^R 1aStep1 us, CA P is required to consider about maintenance of digital database while framing audit strategy. ✓

(ii) - According to [SA 300], the audit plan defines the -

i - Nature, timing and extent of Risk assessment procedures ✓ ^R

ii Nature, timing and extent of further audit procedures

iii Nature, timing and extent of other planned audit procedures. ✗

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[continued in next sheet].

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3. calculate the closing balance of intangible assets by the following formula

0 **R** opening Balance + Addition
3aStep2 - Deletions **X**

To obtain and reconcile the result with the stated balance

3- ~~calculate~~ Recalculate the amortisation

7 **R** **3**

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No Marks for this page



The Institute of Chartered Accountants of India

Code: IN5AE366557
Subject: 05 Auditing and Ethics

Total Marks: 70
Marks Obtained : 50

Result Overview

Awarded Marks: 50

Max Marks:70

NA Not Attempted

O Optional

M Marked

Q1_Compulsory (Score: 9/14)

Question No	Awarded Marks	Maximum Marks	Status	Question Comments
1	9	14	M	
1a	3	5	M	
1b	5	5	M	
1c	1	4	M	

Q2_Q6 (Score: 41/56)

Question No	Awarded Marks	Maximum Marks	Status	Question Comments
2	11	14	M	
2a	2	5	M	
2b	5	5	M	
2c	4	4	M	
3	7	14	M	
3a	1	5	M	
3b	5	5	M	
3c	1	4	M	
4	13	14	M	
4a	5	5	M	
4b	4	5	M	
4c	4	4	M	
5	10	14	M	
5a	5	5	M	
5b	1	5	M	
5c	4	4	M	
6	0	14	O	

6a	0	5	<input type="radio"/>
6b	0	5	<input type="radio"/>
6c	0	4	<input type="radio"/>