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Changes to This Edition

General

Revised end-of-chapter short exercises, exercises, problems, continuing problems, comprehensive problems, and critical thinking cases.
NEW! Added three comprehensive problems in managerial chapters.

Chapter 1

NEW! Added discussion of the Pathways Commission and incorporated the Pathways' Vision Model.
Clarified and simplified the financial statement presentation.

Chapter 3

NEW! Added discussion of the new revenue recognition principle.
Replaced the word *prepaids* with *deferrals* to better align with the presentation of the other types of adjusting entries.

Chapter 4

Increased the usage of the classified balance sheet as a requirement for end-of-chapter problems.

Chapter 5

NEW! Added section on income tax expense and updated income statement presentation.

Chapter 9

Expanded the discussion on partial-year depreciation.

Chapter 11

NEW! Added a discussion on income taxes payable.
Updated the payroll section for consistency with current payroll laws at the time of printing.

Chapter 13

Moved coverage of treasury stock before dividends to increase students' understanding of dividend transactions.
Modified the presentation of dividends to match the material presented in earlier chapters (Chapters 1–4).

Chapter 16

NEW! Added discussion of the Pathways Commission and incorporated the Pathways' Vision Model.
NEW! Included triple bottom line in Today's Business Environment section.
Expanded the cost flows exhibit to include T-accounts for manufacturing inventory accounts.

Chapter 17

Modified the exhibit on summary journal entries to include T-accounts for manufacturing inventory accounts and COGS.

Chapter 19

Clarified the explanation of the differences between target pricing and cost-based pricing.

Chapter 20

NEW! Added comprehensive problem for Chapters 16–20.

Chapter 24

NEW! Added comprehensive problem for Chapters 22–24.

Chapter 26

NEW! Added comprehensive problem for Chapters 25 and 26.

Financial & Managerial Accounting...

Expanding on Proven Success

New to the Enhanced eText

The Enhanced eText keeps students engaged in learning on their own time, while helping them achieve greater conceptual understanding of course material. The worked examples bring learning to life, and algorithmic practice allows students to apply the very concepts they are reading about. Combining resources that illuminate content with accessible self-assessment, MyAccountingLab with Enhanced eText provides students with a complete digital learning experience—all in one place.

NEW!

Try It! Solution Videos—

Author recorded solution videos accompany Try Its! Just click on the Try It! box and watch the author will walk students through the problem and the solution.

Startech Surveillance Services had the following adjustments as of the end of the year:

- Equipment depreciation was \$1,500. **D**
- \$700 of advertising expense was incurred but not paid. (Use Advertising Payable.) **A**
- Office Supplies on hand at the end of the year totaled \$250. The beginning balance of Office Supplies was \$600. **D**
- \$1,200 of rent revenue was earned but not recorded or received. **A**
- Unearned revenue of \$3,000 had been earned. **D**

6. For each situation, indicate which category of adjustment (deferral or accrual) is described.
7. Journalize the adjusting entry needed.

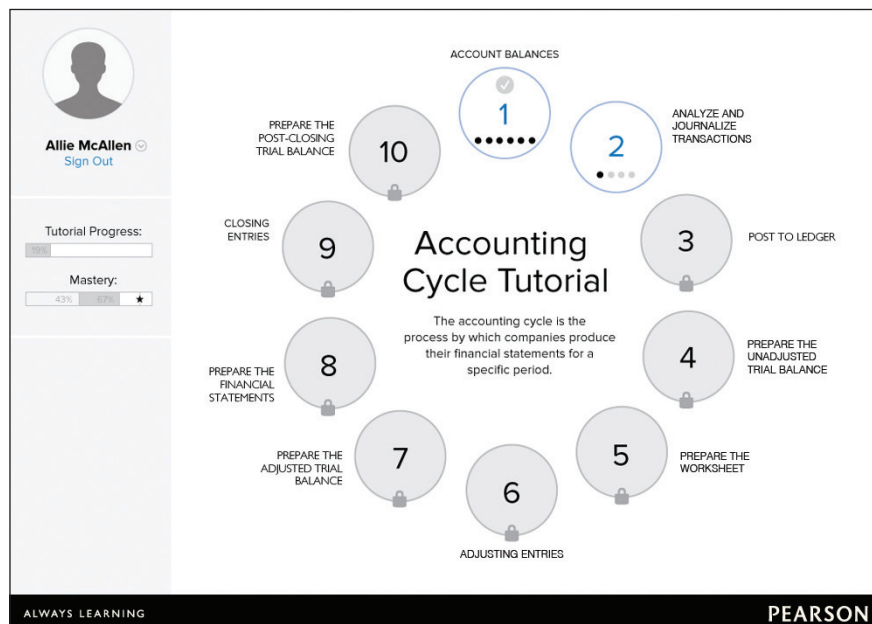
Deferral: Cash occurs before revenue or expense
Accrual: Cash occurs after revenue or expense

a. Dep. Exp.	1500	b. Adv. Exp.	700
Acc. Dep.	1500	Adv. Pay.	700

NEW!

Accounting Cycle Tutorial—MyAccountingLab's new interactive tutorial helps students master the Accounting Cycle for early and continued success in the introduction to Accounting course.

The tutorial, accessed by computer, Smartphone, or tablet, provides students with brief explanations of each concept of the Accounting Cycle through engaging videos and/or animations. Students are immediately assessed on their understanding and their performance is recorded in the MyAccountingLab grade book. Whether the Accounting Cycle Tutorial is used as a remediation self-study tool or course assignment, students have yet another resource within MyAccountingLab to help them be successful with the accounting cycle.



NEW!

Learning Catalytics—A “bring your own device” assessment and classroom activity system that expands the possibilities for student engagement. Using Learning Catalytics, you can deliver a wide range of auto-gradable or open-ended questions that test content knowledge and build critical thinking skills. Eighteen different answer types provide great flexibility, including graphical, numerical, textual input, and more.

The screenshot shows the Learning Catalytics interface. At the top, it says "learning | catalytics" and "David Tennant | Log out". Below that, it displays "Session 71590166" and "many choice question". The question is: "Choose all of the accounts that would be listed on the balance sheet:". The options are: A. Revenues, B. Losses, C. Assets, D. Liabilities, E. Expenses, F. Stockholders' equity, and G. Gains. Options C, D, and F are selected. Below the options, it says "You may select zero, one, or many answers." and there is a "Submit response" button. At the bottom, there are links for "Refresh", "Send a message to the instructor", and "Join another session". The footer includes "ALWAYS LEARNING", "PEARSON", and "Copyright © 2014 Pearson or its affiliate(s). All rights reserved." with links for "Help | Support | Legal | Contact us".

NEW!

Animated Lectures—These pre-class learning aids are available for every learning objective and are professor-narrated PowerPoint summaries that will help students prepare for class. These can be used in an online or flipped classroom experience or simply to get students ready for lecture.

The screenshot shows an animated lecture slide titled "Depreciation". It features a diagram with two columns. The left column is labeled "Related Account" and contains "Furniture". Below it, a box labeled "Normal DR balance" has an arrow pointing to the "Furniture" account. The right column is labeled "Contra Account" and contains "Accumulated Depreciation—Furniture". Below it, a box labeled "Normal CR balance" has an arrow pointing to the "Accumulated Depreciation—Furniture" account. Below the diagram, the text reads: "A business may have a separate Accumulated Depreciation account for each depreciable asset". Below this text is a list of two items: "➤ Accumulated Depreciation - Furniture" and "➤ Accumulated Depreciation - Building". To the right of the list is a small image of a laptop with "Smart Touch Learning" on the screen. The footer includes "Copyright © 2016 Pearson Education, Inc." and "PEARSON".

End-of-Chapter Continuing and Comprehensive Problems

> Continuing Problem

Problem P1-54 is the first problem in a sequence that begins an accounting cycle. The cycle is continued in Chapter 2 and completed in Chapter 5.

P1-54 Using the accounting equation for transaction analysis, preparing financial statements, and calculating return on assets (ROA)

Daniels Consulting began operations and completed the following transactions during December 2016:

Dec. 2	Stockholders contributed \$20,000 cash in exchange for common stock.
2	Paid monthly office rent, \$2,000.
3	Paid cash for a computer, \$3,600. This equipment is expected to remain in service for five years.
4	Purchased office furniture on account, \$3,000. The furniture should last for five years.
5	Purchased office supplies on account, \$800.
9	Performed consulting service for a client on account, \$2,500.
12	Paid utilities expenses, \$150.
18	Performed service for a client and received cash of \$2,100.
21	Received \$2,400 in advance for client service to be performed in the future. (This increases the Unearned Revenue account, which is a liability. This account will be explained in more detail in Chapter 2.)

Continuing Problem—Starts in Chapter 1 and runs through the entire book exposing students to recording entries for a service company and then moving into recording transactions for a merchandiser later in the text. The managerial chapters emphasize the relevant topics for that chapter using a continuous company.

Practice Set—Starts in Chapter 2 and goes through the financial chapters and provides another opportunity for students to practice the entire accounting cycle. The practice set uses the same company in each chapter but is often not as extensive as the continuing problem.

Comprehensive Problem 1 for Chapters 1–4—Covers the entire accounting cycle for a service company.

Comprehensive Problem 2 for Chapters 1–4—A continuation of Comprehensive Problem 1. It requires the student to record transactions for the month after the closing process.

Comprehensive Problem for Chapters 1–5—Covers the entire accounting cycle for a merchandise company.

Comprehensive Problem for Chapter 15—Students use trend analysis and ratios to analyze a company for its investment potential.

NEW! **Comprehensive Problem for Chapters 16–20**—Covers fundamental managerial accounting concepts: job order costing, process costing, cost management systems, and cost-volume-profit analysis.

NEW! **Comprehensive Problem for Chapters 22–24**—Covers planning and control decisions for a manufacturing company, including a master budget, flexible budget, variance analysis, and performance evaluation.

NEW! **Comprehensive Problem for Chapters 25–26**—Covers decision making, both short-term business decisions and capital budgeting decisions.

Comprehensive Problem for Appendix C—Uses special journals and subsidiary ledgers and covers the entire accounting cycle for a merchandise company. Students can complete this comprehensive problem using the MyAccountingLab General Ledger or Quickbooks™ software.

COMPREHENSIVE PROBLEM

> Comprehensive Problem for Chapters 16–20

The Savannah Shirt Company makes two types of T-shirts: basic and custom. Basic shirts are plain shirts without any screen printing on them. Custom shirts are created using the basic shirts and then adding a custom screen printing design.

The company buys cloth in various colors and then makes the basic shirts in two departments, Cutting and Sewing. The company uses a process costing system (weighted-average method) to determine the production cost of the basic shirts. In the Cutting Department, direct materials (cloth) are added at the beginning of the process and conversion costs are added evenly through the process. In the Sewing Department, no direct materials are added. The only additional material, thread, is considered an indirect material because it cannot be easily traced to the finished product. Conversion costs are added evenly throughout the process in the Sewing Department. The finished basic shirts are sold to retail stores or are sent to the Custom Design Department for custom screen printing.

The Custom Design Department creates custom shirts by adding screen printing to the basic shirt. The department creates a design based on the customer's request and then prints the design using up to four colors. Because these shirts have the custom printing added, which is unique for each order, the additional cost incurred is determined using job order costing, with each custom order considered a separate job.

For March 2016, the Savannah Shirt Company compiled the following data for the Cutting and Sewing Departments:

Chapter Openers

Chapter openers set up the concepts to be covered in the chapter using stories students can relate to. The implications of those concepts on a company's reporting and decision making processes are then discussed.

The Adjusting Process 3



Where's My Bonus?

Liam Mills was surprised when he opened his mail. He had just received his most recent quarterly bonus check from his employer, Custom Marketing, and the check was smaller than he expected. Liam worked as a sales manager and was responsible for product marketing and implementation in the southwest region of the United States. He was paid a monthly salary but also received a 3% bonus for all revenue generated from advertising services provided to customers in his geographical area. He was counting on his fourth quarter (October–December) bonus check to be large enough to pay off the credit card debt he had accumulated over the holiday break. It had been a great year-end for Liam. He had closed several open accounts, successfully signing several annual advertising contracts. In addition, because of his negotiating skills, he was able to collect half of the payments for services up front instead of waiting for his customers to pay every month. Liam expected that his bonus check would be huge because of this new business, but it wasn't.

The next day, Liam stopped by the accounting office to discuss his bonus check. He was surprised to learn that his bonus was calculated by the revenue earned by his company through December 31. Although Liam had negotiated to receive half of the payments up front, the business had not yet earned the revenue from those payments. Custom Marketing will not record revenue earned until the advertising services have been performed. Eventually Liam will see the new business reflected in his bonus check, but he'll have to wait until the revenue has been earned.



How Was Revenue Earned Calculated?

At the end of a time period (often December 31), companies are required to accurately report revenues earned and expenses incurred during that time period. In order to do this, the company reviews the account balances as of the end of the time period and determines whether any adjustments are needed. For example, CC Media Holdings, Inc., the parent company of radio giant Clear Channel Communications and Clear Channel Outdoor Holdings, an outdoor advertising agency, must determine the amount of revenue earned from open advertising contracts. These contracts can cover only a few weeks or as long as several years. Only the amount earned in the current time period is reported as revenue on the income statement. *Adjusting the books* is the process of reviewing and adjusting the account balances so that amounts on the financial statements are reported accurately. This is what we will learn in this chapter.

Effect on the Accounting Equation

Next to every journal entry, these illustrations help reinforce the connections between recording transactions and the effect those transactions have on the accounting equation.

On November 10, Smart Touch Learning performed services for clients, for which the clients will pay the company later. The business earned \$3,000 of service revenue on account.

This transaction increased Accounts Receivable, so we debit this asset. Service Revenue is increased with a credit.

$$\left. \begin{array}{l} \text{A}\uparrow \\ \text{Accounts} \\ \text{Receivable}\uparrow \end{array} \right\} = \left\{ \begin{array}{l} \text{L} + \text{E}\uparrow \\ \text{Service} \\ \text{Revenue}\uparrow \end{array} \right.$$

Date	Accounts and Explanation	Debit	Credit
Nov. 10	Accounts Receivable	3,000	
	Service Revenue		3,000
	<i>Performed services on account.</i>		

Instructor Tips & Tricks

Found throughout the text, these handwritten notes mimic the experience of having an experienced teacher walk a student through concepts on the “board.” Many include mnemonic devices or examples to help students remember the rules of accounting.

$$\left. \begin{array}{l} \text{A}\downarrow \\ \text{Accumulated} \\ \text{Depreciation—} \\ \text{Building}\uparrow \end{array} \right\} = \left\{ \begin{array}{l} \text{L} + \text{E}\downarrow \\ \text{Depreciation} \\ \text{Expense—} \\ \text{Building}\uparrow \end{array} \right.$$

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Depreciation Expense—Building	250	
	Accumulated Depreciation—Building		250
	<i>To record depreciation on building.</i>		

Remember, an increase in a contra asset, such as Accumulated Depreciation, decreases total assets. This is because a contra asset has a credit balance and credits decrease assets.

Common Questions, Answered

Our authors have spent years in the classroom answering students' questions and have found patterns in the concepts or rules that consistently confuse students. These commonly asked questions are located in the margin of the text next to where the answer or clarification can be found highlighted in orange text.



Why was the account Patent credited instead of Accumulated Amortization—Patent?

Notice that Smart Touch Learning credited the amortization directly to the intangible asset, Patent, instead of using an Accumulated Amortization account. A company may credit an intangible asset directly when recording amortization expense, or it may use the account Accumulated Amortization. **Companies frequently choose to credit the asset account directly because the residual value is generally zero and there is no physical asset to dispose of at the end of its useful life, so the asset essentially removes itself from the books through the process of amortization.**

At the end of the first year, Smart Touch Learning will report this patent at \$160,000 (\$200,000 cost minus first-year amortization of \$40,000), the next year at \$120,000, and so forth. Each year for five years the value of the patent will be reduced until the end of its five-year life, at which point its book value will be \$0.

Try It! Boxes

Found after each learning objective, Try Its! give students the opportunity to apply the concept they just learned to an accounting problem. Deep linking in the eText will allow students to practice in MyAccountingLab without interrupting their interaction with the eText.

Try It!

Total Pool Services earned \$130,000 of service revenue during 2016. Of the \$130,000 earned, the business received \$105,000 in cash. The remaining amount, \$25,000, was still owed by customers as of December 31. In addition, Total Pool Services incurred \$85,000 of expenses during the year. As of December 31, \$10,000 of the expenses still needed to be paid. In addition, Total Pool Services prepaid \$5,000 cash in December 2016 for expenses incurred during the next year.

1. Determine the amount of service revenue and expenses for 2016 using a cash basis accounting system.
2. Determine the amount of service revenue and expenses for 2016 using an accrual basis accounting system.

Check your answers online in MyAccountingLab or at <http://www.pearsonhighered.com/Horngren>.

For more practice, see Short Exercises S3-1 and S3-2. [MyAccountingLab](#)

Redesigned

The redesign includes clean and consistent art for T-accounts, journal entries, financial statements, and the accounting equation. New art types include clear explanations and connection arrows to help students follow the transaction process.

$$\text{ASSETS} = \left\{ \begin{array}{l} \text{LIABILITIES} + \\ \text{EQUITY} \end{array} \right.$$

Contributed Capital	+	Retained Earnings
Common Stock	-	Dividends
	+	Revenues
	-	Expenses

IFRS

Information on IFRS provides guidance on how IFRS differs from U.S. GAAP throughout the financial chapters.



Decision Boxes

This feature provides common questions and potential solutions business owners face. Students are asked to determine the course of action they would take based on concepts covered in the chapter and are then given potential solutions.

DECISIONS

Can we cut these costs?

The management team of Puzzle Me is looking at the production cost reports for July, and discussing opportunities for improvement. The production manager thinks the production process is very efficient, and there is little room for cost savings in conversion costs. The purchasing manager tells the team that he was recently approached by a supplier with an excellent reputation for quality. This supplier submitted a bid for cardboard that was a little thinner but would allow the company to decrease direct materials costs by 5%. What should the team do?

Solution

The production cost reports for the Assembly and Cutting Departments show direct materials costs of \$2.80 and \$0.50 per puzzle, for total direct materials cost of \$3.30 per puzzle. A decrease of 5% in direct materials costs would result in a savings

of \$0.165 per puzzle ($\$3.30 \times 5\%$) and decrease total costs from \$5.30 to \$5.135 per puzzle. Based on the completed production of 38,000 puzzles in July, the total cost savings would be \$6,270 per month ($\$0.165 \text{ per puzzle} \times 38,000 \text{ puzzles}$). The purchasing manager recommends using the new supplier.

Alternate Solution

The marketing manager has a different perspective. He points out that most of the puzzles produced are for toddlers. Based on market research, the adults who purchase these puzzles like the sturdy construction. If Puzzle Me changes materials and the puzzles do not stand up well to the treatment they receive by young children, the company could rapidly lose market share. The marketing manager does not recommend using a thinner cardboard.

> Things You Should Know

1. How do we prepare financial statements?

- Financial statements are prepared from the adjusted trial balance in the following order:
 1. Income statement—reports revenues and expenses and calculates net income or net loss during the period
 2. Statement of retained earnings—shows how retained earnings changed during the period due to net income or net loss and dividends
 3. Balance sheet—reports assets, liabilities, and stockholders' equity as of the last day of the period
- A classified balance sheet classifies each asset and each liability into specific categories.

2. How could a worksheet help in preparing financial statements?

- The columns of a worksheet can be extended to help in preparing the financial statements.
- The income statement section will include only revenue and expense accounts.
- The balance sheet section will include asset and liability accounts and all equity accounts except revenues and expenses.

Things You Should Know

Provides students with a brief review of each learning objective presented in a question and answer format.

Dear Colleague,

Thank you for taking time, out of what we know is a busy schedule, to review the newest edition of *Horngren's Financial and Managerial Accounting*. We are excited to share our innovations with you as we expand on the proven success of our significant revision to the Horngren franchise. Using what we have learned from focus groups, market feedback, and our colleagues, we've designed this edition to focus on several goals.

First, we made certain that our content was clear, consistent, and above all, accurate. As authors, we reviewed each chapter to ensure that students understand what they are reading and that there is consistency from chapter to chapter. In addition, our textbook goes through a multi-level accuracy check which includes the author team working every single accounting problem and having a team of accounting professors from across the nation review for accuracy. Next, through ongoing conversations with our colleagues and our time engaged at professional conferences, we confirmed that our pedagogy and content represents the leading methods used in the classroom and provides your students with the foundation they need to be successful in their future academic and professional careers. Lastly, we concentrated on student success and providing resources for professors to create an active and engaging classroom.

Student success. Using our experience as educators, our team carefully considered how students learn, what they learn, and where they struggle the most. We understand that sometimes there is a gap in students' understanding between the textbook content and what is done in the classroom or in an online environment, so we have included in the textbook and enhanced eText several great learning aids for students. *Instructor Tips and Tricks* and *Common Questions Answered* address areas that are typically challenging for students. These aids provide handy memory tools or address common student misconceptions or confusion. We also realized that students use our enhanced eText to study on their own time and we have built in many new features to bring learning to life and to allow students to apply the concepts they are reading about outside of the classroom. Available through MyAccountingLab, students have the opportunity to watch author recorded solution videos, practice the accounting cycle using an interactive tutorial, and watch in-depth author-driven animated lectures that cover every learning objective.

Professor expectations. As professors, we know it's critical to have excellent end-of-chapter material and instructor resources. With these expectations, all end-of-chapter problems have been revised and our author team, along with our trusted accuracy checkers, have checked every problem for accuracy and consistency. In addition to financial comprehensive problems, three NEW comprehensive problems have been added to the managerial content. These problems cover multiple chapters and encourage students to think reflectively about prior material learned and the connections between accounting concepts. We have also reviewed and updated ALL instructor resources to accompany this edition of the book. In addition, the PowerPoint presentations and Test Bank have had significant revisions based upon your feedback and needs.

Expanding on the proven success of our last edition, we believe that our enhancements to *Horngren's Financial and Managerial Accounting*, along with MyAccountingLab, will help your students achieve success in accounting. We welcome your feedback, suggestions, and comments. Please don't hesitate to contact us at HorngrensAccounting@pearson.com.

Tracie L. Miller-Nobles, CPA Brenda Mattison Ella Mae Matsumura, PhD

Instructor and Student Resources

Each supplement, including the resources in MyAccountingLab, has been reviewed by the author team to ensure accuracy and consistency with the text. Given their personal involvement, you can be assured of the high quality and accuracy of all supplements.

For Instructors

 MyAccountingLab

Online Homework and Assessment Manager: <http://www.myaccountinglab.com>

Instructor Resource Center: <http://www.pearsonhighered.com/Horngren>

For the instructor's convenience, the instructor resources can be downloaded from the textbook's catalog page (<http://www.pearsonhighered.com/Horngren>) and MyAccountingLab. Available resources include the following:

Online Instructor's Resource Manual:

Course Content:

- Tips for Taking Your Course from Traditional to Hybrid, Blended, or Online
- Standard Syllabi for Financial Accounting (10-week & 16-week)
- Standard Syllabi for Managerial Accounting (10-week & 16-week)
- Sample Syllabi for 10- and 16-week courses
- “First Day of Class” student handouts include:
 - Student Walk-Through to Set-up MyAccountingLab
 - Tips on How to Get an A in This Class

Chapter Content:

- Chapter Overview
 - Contains a brief synopsis and overview of each chapter.
- Learning Objectives
- Teaching Outline with Lecture Notes
 - Revised to combine the Teaching Outline and the Lecture Outline Topics, so instructors only have one document to review.
 - Walks instructors through what material to cover and what examples to use when addressing certain items within the chapter.
- Handout for Student Notes
 - An outline to assist students in taking notes on the chapter.
- Student Chapter Summary
 - Aids students in their comprehension of the chapter.
- Assignment Grid
 - Indicates the corresponding Learning Objective for each exercise and problem.
- Answer Key to Chapter Quiz
- Ten-Minute Quiz
 - To quickly assess students' understanding of the chapter material.
- Extra Critical Thinking Problems and Solutions
 - Critical Thinking Problems removed from this edition of the text were moved to the IRM so instructors can continue to use their favorite problems.
- NEW Guide to Classroom Engagement Questions
 - Author-created element will offer tips and tricks to instructors in order to help them use the Learning Catalytic questions in class.

Online Instructor's Solutions Manual:

- Contains solutions to all end-of-chapter questions, short exercises, exercises, and problems.
- The Try It! Solutions, previously found at the end of each chapter, are now available for download with the ISM.
- All solutions were thoroughly reviewed by the author team and other professors.

Online Test Bank:

- Includes more than 3,900 questions.
- Both conceptual and computational problems are available in true/false, multiple choice, and open-ended formats.
- Algorithmic test bank is available in MyAccountingLab.

PowerPoint Presentations:

Instructor PowerPoint Presentations:

- Complete with lecture notes.
- Mirrors the organization of the text and includes key exhibits.

Student PowerPoint Presentations:

- Abridged versions of the Instructor PowerPoint Presentations.
- Can be used as a study tool or note-taking tool for students.

Demonstration Problem PowerPoint Presentations:

- Offers instructors the opportunity to review in class the exercises and problems from the chapter using different companies and numbers.

Clicker Response System (CRS) PowerPoint Presentations:

- 10 multiple-choice questions to use with a Clicker Response System.

Image Library:

- All image files from the text to assist instructors in modifying our supplied PowerPoint presentations or in creating their own PowerPoint presentations.

Working Papers and Solutions:

- Available in Excel format.
- Templates for students to use to complete exercises and problems in the text.

Data and Solutions Files:

- Select end-of-chapter problems have been set up in different software applications, including QuickBooks and General Ledger.
- Corresponding solution files are provided for QuickBooks.

For Students

MyAccountingLab

Online Homework and Assessment Manager: <http://www.myaccountinglab.com>

- Pearson Enhanced eText
- Data Files
- Animated Lectures
- Demo Docs
- Working Papers
- Student PowerPoint® Presentations
- Accounting Cycle Tutorial
- Flash Cards

Student Resource Web site: <http://www.pearsonhighered.com/Horngren>

The book's Web site contains the following:

- Data Files: Select end-of-chapter problems have been set up in QuickBooks software and the related files are available for download.
- Working Papers
- Try It! Solutions: The solutions to all in-chapter Try Its! are available for download.

<http://www.pearsonhighered.com/Horngren>

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