



A Review of Financial and Management Accounting as the Basis of Financial Management

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Abstract: *This study examines how financial and management accounting systems support effective financial management, with particular focus on transparency, governance, and strategic decision-making across corporate, SME, and public-sector contexts. Utilizing a qualitative literature review approach, the paper synthesizes peer-reviewed research, institutional reports, and academic books published between 2015 and 2025. Thematical analysis centers around three core dimensions: transparency and corporate governance in financial reporting, management accounting as a decision-support tool, and integration of accounting systems through digitalization and sustainability practices. The review finds that high-quality financial reporting reduces information asymmetry, strengthens governance, and enhances stakeholders' confidence, while management accounting transforms financial and non-financial data into actionable insights that improve operational efficiency, cost control, and strategic planning. Integration of these systems, facilitated by digital technologies such as artificial intelligence, business intelligence, blockchain, and cloud accounting, further enhances real-time decision-making,*

predictive analytics, and organizational resilience. The effectiveness of these systems is contingent on financial literacy, technological readiness, and institutional capacity, with SMEs and public-sector organizations exhibiting unique challenges and opportunities. The study concludes that accounting systems serve not only as compliance mechanisms but also as strategic tools that link reporting, decision-making, and sustainability considerations.

Keywords: *Accounting Information System, Business Intelligence, Corporate Governance, Digitalization, Financial Literacy*

Introduction

Financial management fundamentally relies on the consistent provision of accurate, timely, and relevant information concerning both historical performance and future projections. This information is primarily derived from two complementary domains of accounting: financial accounting and management accounting. Financial accounting is primarily concerned with external reporting, financial governance, and regulatory compliance, whereas management accounting emphasizes internal decision support, planning, and controlling of financial activity in an organization. The quality, reliability, and integration of accounting information systems are therefore directly linked to the effectiveness of financial management.

De Villiers and Sharma (2020) emphasize that standardized and integrated reporting frameworks improve transparency and comparability, mitigating information asymmetry and enhancing investor confidence, provided they are effectively implemented and

regulated. Similarly, in an integrative review, Ayagi and Salisu (2023) find consistent evidence that higher financial reporting quality (timeliness, accuracy, disclosure breadth) is associated with reduced information asymmetry. Furthermore, Leoni et al. (2022) examine how accounting and accountability mechanisms were reshaped by the COVID-19 crisis, highlighting how management accounting information systems and reporting practices can support governance and resilience in turbulent times. In the public sector, Helden and Uddin (2016) show that the adoption of accrual-based financial accounting has improved fiscal accountability, although limitations remain in terms of managerial utilization of such information. These findings suggest that the presence of accounting data is insufficient, its integration into decision-making processes is critical for effective financial management.

In addition, digitalization and data analytics have emerged as transformative forces in both financial and management accounting. Appelbaum et al. (2017) argue that big data and analytics enhance the decision-support role of management accounting by enabling faster and more accurate forecasting, as well as improved performance evaluation. Likewise, Quattrone (2016) contends that digital reporting platforms reduce information asymmetry by providing managers and stakeholders with real-time financial insights, thereby directly reinforcing financial management practices.

Moreover, sustainability and ESG (environmental, social, and governance) considerations have begun to reshape financial management through the integration of non-financial data into accounting systems. Khan et al. (2016) demonstrate that firms incorporating sustainability information into financial reporting enhance investor trust and long-term valuation. In parallel, Lueg and Radlach (2016) argue that management accounting has expanded to include sustainability performance metrics, which increasingly inform financial planning and investment decisions. These insights indicate that ESG integration strengthens both external credibility and internal decision-making, positioning sustainability as a core element of modern financial management.

Undertaking this review is justified by the growing complexity of financial environments, the fast-paced changes driven by digital technology, and sustainability in accounting practice. A comprehensive synthesis is therefore essential to clarify how contemporary accounting systems contribute to effective, transparent, and adaptive financial management. Given these developments, the objective of this review is to examine how financial and management accounting systems support financial management, with particular emphasis on their role in reducing information asymmetry, strengthening governance, and enhancing today's strategic decision-making in both corporate and public-sector contexts.

Literature Review

Transparency, Financial Reporting, and Corporate Governance

Transparency in financial reporting and disclosure plays a crucial role in strengthening corporate governance and enabling effective financial management. Stein et al. (2017) note that transparency holds multiple meanings among stakeholders. Investors associate it with clarity and reliability of information, whereas managers focus more on the

comprehensiveness of disclosure. This difference implies that corporate governance must balance these perspectives to ensure information is both relevant and credible. Ritter (2024) affirms this perspective by identifying financial reporting as a cornerstone of corporate governance, providing stakeholders with essential information about an organization's economic performance and position. It promotes transparency, accountability, and investor confidence, while also supporting internal decision-making and regulatory compliance. A review by Roychowdhury et al. (2019) finds that when reporting is more transparent, firms invest more efficiently, because managers, investors, and lenders have better information, reducing adverse selection and moral hazard. Similarly, Turrent et al. (2023) emphasize that transparent board practices, such as timely reporting and board-level disclosure strategies, strengthen stakeholder trust and reduce agency conflicts. Yoro (2024) finds that investors rely heavily on transparent financial reports when making portfolio decisions, demonstrating a direct link between reporting quality and investor behavior in emerging markets. Thus, Armstrong et al. (2016) emphasized that transparent reporting serves not only a compliance function but also a governance tool that aligns the interests of managers and investors, ultimately lowering agency costs.

Financial accounting is not only about recording transactions but also about communicating comprehensive and reliable information that influences capital markets. An article by Pirgaip & Rizvic (2023) describes integrated reporting as a comprehensive reporting approach that holistically portrays a company's performance, offering a structured framework that furnishes investors with the requisite information to ascertain the true value of the company, indicating that better disclosures reduce investors' uncertainty and enhance financing efficiency. Similarly, Reinaldo (2024) demonstrated that stronger corporate governance structures, such as independent boards and active audit committees, significantly improve the quality of disclosed information. Studies also suggest that adoption of international standards, such as IFRS (International Financial Reporting Standards), mediates the relationship between governance and reporting quality, reinforcing transparency and accountability (Gardi et al, 2023). Extending this view, positive effects of IFRS adoption were significant only for firms with moderate levels of corporate governance, while those with strong governance had already achieved high transparency prior to IFRS, and those with weak governance failed to benefit due to ineffective implementation (Chu et al., 2019). Hlel et al. (2020) also link IFRS adoption to improved management earnings forecasts, but only in firms with strong internal controls.

The market implications of transparency are likewise well-established. Falatifah and Hermawan (2021) demonstrate across Organization for Economic Co-operation and Development (OECD) firms that effective boards and voluntary integrated reporting jointly lower the cost of equity, proving that market participants reward transparent governance systems. Broader systematic reviews corroborate that voluntary disclosure regimes, including integrated reporting, can lower perceived risk and cost of capital when governance and enforcement complement the disclosures (Carmo et al., 2023). Regional evidence likewise points to the importance of governance structures, board composition,

gender diversity, and audit committee strength consistently predict higher reporting quality in both Middle Eastern and African settings (Khatri et al., 2025).

These studies illustrate that transparency is the informational foundation of effective governance and efficient markets. High-quality reporting aligns managerial and investor interests, reduces uncertainty, and supports informed decision-making. Thus, transparency functions as a strategic asset rather than a mere compliance requirement. Organizations seeking sustained performance must embed transparent reporting practices, strengthen oversight mechanisms, and align disclosures with international standards, so that governance, reporting quality, and market discipline reinforce one another to promote organizational integrity and financial resilience.

Management Accounting as an Operational Backbone for Decision-making

Management accounting has increasingly evolved into a discipline that bridges operations and finance, serving not merely as a system for cost measurement but as a critical mechanism for decision support, strategic alignment, and performance enhancement. This evolution reflects a shift from traditional cost-accounting approaches toward more comprehensive decision-support frameworks that operationalize financial management. A bibliometric review by Jiang (2019) covering 2015-2017 classified topics in management accounting research and found that performance evaluation systems, management control, performance-oriented compensation, and information systems, reflecting a move beyond cost tracking to tools that guide strategic and financial decisions. This reflects a shift toward tools like KPIs, balanced scorecards, and budgeting innovations that link accounting with managerial decisions. Similarly, Chang et al. (2023) highlights that management accounting systems (MAS) are deeply interconnected with decision-making theories, demonstrating how rational, administrative, and political styles shape the use of accounting information in supporting managerial decisions. Pedroso and Gomes (2020) further validated a multidimensional framework for assessing the effectiveness of MAS, concluding that the quality and use of accounting information decisively influence both decision-making and firm performance. Complementarily, Razak et al. (2024) add to this proposing a conceptual MAS framework for SMEs that integrates cost accounting, budgeting, and performance evaluation, illustrating how tailored management accounting systems can strengthen decision-making effectiveness.

Empirical evidence further supports the contribution of management accounting tools manifest in concrete financial management outcomes. Anand et al. (2019) present that cost system design choices, such as cost-driver selection and allocation rules, materially affect managerial decision-making and profitability, emphasizing that management accounting structures shape economic performance. Likewise, Abdiaziz and Makori (2025), in their examination of SMEs in Kenya, show that specific practices, such as inventory management and receivables policies, substantially enhance financial performance. Pereira et al. (2021) further observed that the timeliness, relevance, and interpretability of management accounting information are key determinants of effective decision-making, reinforcing its role as an organizational intelligence mechanism rather than a mere cost-

measurement system. These findings highlight how management accounting techniques in managing current assets and liabilities contribute directly to profitability and growth, particularly in resource-constrained environments.

Moreover, contemporary literature underscores management accounting's transformation into a strategic decision-support framework rather than a purely operational control system. Wijayanti and Cahyadi (2024) noted that modern management control system (MCS) designs are shifting toward innovation-enabling structures that complement strategic flexibility, while Putri et al. (2024) emphasized how digitalized MCS contribute to sustainability-oriented decision-making by enhancing data accuracy and aligning operational performance with strategic goals. Rangkuti (2024) similarly observes that digital analytics and real-time accounting information underpin strategic decision-making, enabling management accountants to act as strategic partners in organizational transformation.

Furthermore, modern management accounting tools support decision-making by improving underlying information. A study by Ratmono et al. (2023) demonstrates that the digitalization of management accounting systems (DIMAS) among SMEs affects decision-making effectiveness via improvements in accounting information quality (accuracy and timeliness) and cost reduction. It finds that digitalization does not directly lead to better decision-making; instead, it works through mediators that provide accurate and timely information and lower costs. Complementing this, Fahndrich (2023) reviews digitalization trends in management control and concludes that digital tools enhance budgeting, reporting, and scenario modeling, thereby strengthening managerial decision-making. Meanwhile, Hendrawati et al. (2024) added that while digital accounting tools do not always directly improve SME performance, their benefits emerge when they enhance the quality of accounting information, which then supports better financial decisions. Almgrashi (2025) found that digital accounting systems improve sustainable decision-making through the accuracy and timeliness of financial data, while user satisfaction mediates this relationship.

The reviewed literature establishes management accounting as the operational backbone of organizational decision-making and financial management. Across studies, a consistent pattern emerges management accounting's value lies not merely in cost measurement, but in its capacity to transform financial and operational data into actionable insights that guide resource allocation, risk assessment, performance monitoring, and strategic planning. Modern MAS, particularly those enhanced through digitalization act as central information infrastructures that integrate operational realities with financial objectives, enabling firms to make timely, evidence-based decisions. Thus, management accounting functions as a fundamental mechanism through which organizations coordinate activities, evaluate investment opportunities, and design incentive systems that support long-term stability, innovation, and growth.

Integration of Financial and Management Accounting—Digitalization and Emerging Technologies

The notion that integrating financial and management accounting systems substantially enhances decision-making. Technologies like big data, business intelligence (BI), cloud accounting, and blockchain are repeatedly shown to facilitate this integration by allowing richer data flows, timelier and more granular reporting, and shared platforms or ledgers where internal operational metrics and external financial reports are interlinked. As discussed by Macaumbao and Bandera (2025), digital transformation becomes the leading driver: artificial intelligence and machine learning enhance predictive analytics and detect fraud more efficiently; blockchain increases transaction security and regulatory compliance; and cloud-based systems decrease IT expenses while enhancing operational agility. A work by Pargmann et al. (2023) on digitalization in accounting synthesizes evidence on digital tools, competence needs, and the path to tighter integration between financial and management accounting systems. Supporting this, Barreto et al. (2025) argue that the convergence of digital technologies and management accounting has reshaped traditional accounting from a periodic reporting tool to a continuous, analytics-driven management support system, enabling closer alignment with financial accounting.

The integration of these technologies has broadened the scope and improved the timeliness of accounting information. Zhong & Fan (2021) demonstrate that with these technologies, one can expand management accounting's scope (incorporating non-financial indicators) and improve reliability and timeliness in financial reports. This reduces the gap between internal control and external reporting, so that managers face fewer delays and fewer reconciliation tasks. Along with this, Sun (2023) proposes an integration path of management accounting and financial accounting based on big data analysis. By combining mixed data (including MD&A disclosures and financial indicator data) and applying machine-learning ensemble models, the study shows that an integrated model can improve the effect of corporate financial management via earlier financial warning detection. More technical treatments of financial big-data systems, Faccia and Petratos (2024) demonstrate that integrating big data technologies into Accounting Information Systems (AIS) substantially improves financial management through enhanced predictive analytics, risk control, and fraud detection, while also supporting broader functions such as ESG reporting and supply-chain decision-making.

Recent studies highlight the transformative role of Business Intelligence (BI) in enhancing management accounting functions. Bao et al. (2023) indicate that Business Intelligence adoption expands management accounting's analytical reach, improving forecasting, scenario analysis, and the accessibility of combined financial/operational dashboards for decision makers. Similarly, Narulita et al. (2025) concretely show that Business Intelligence (BI) tools enable forecasting and "what-if" analysis integrated into management accounting practice, helping managers make proactive decisions rather than purely reactive ones. Additionally, Achhaiba and Alaoui (2022) emphasize that BI systems reinforce management accounting practices, particularly performance measurement and budgeting, thereby fostering a stronger alignment between managerial and financial reporting processes. In essence, BI-driven systems transform accounting from fragmented reporting functions into a cohesive, information-driven management system. Consistent

with these findings, Samuel et al. (2023) reviews integrated reporting literature and demonstrate that linking financial and non-financial data fosters cross-functional coherence and integrated internal/external reporting. In parallel, Latif (2024) highlights the role of enterprise resource planning (ERP) systems serve as a technical backbone for integration, synchronizing financial transactions and managerial key performance indicators across organizational levels.

Another major development is cloud accounting. Adoption among in Thai SMEs demonstrates the capacity for financial and management accounting to be brought closer, real-time financial information becomes accessible to managers, coherence improves between internal operations and financial reporting, and decision lag is reduced (Sastararuji et al., 2022). Similarly, Petratos (2024) examines how triple-entry accounting (a blockchain-enabled model) enhances system integration by linking transactions across stakeholders and systems; improves transparency internally and externally; and thus, reduces reconciliation burdens, increases reliability of reported data, and shortens response times to financial events. Complementing this, reviews of predictive analytics in accounting reveal that combining governance indicators with machine-learning models enables early detection of financial anomalies, linking management control and financial reporting more proactively (Uddin et al., 2025).

Digitalization fundamentally reshapes the integration of financial and management accounting systems. Beyond merely improving technical connectivity, these technologies enhance the speed, reliability, granularity, and transparency of financial information flows. Importantly, the studies suggest that integration should no longer be understood as a back-office efficiency initiative but as a strategic capability that enhances managerial adaptability, predictive insight, and organizational resilience. Digital tools transform accounting into a real-time, intelligence-driven system that supports cross-functional decision-making and strengthens the alignment between operational performance and financial accountability. However, the literature also indicates that the benefits of integration depend on digital competencies, data governance, and organizational readiness, highlighting that technological adoption alone is insufficient without parallel enhancements in managerial capacity and system design.

Context-specific Strands: SMEs, Public Sector, and Financial Literacy

The link between accounting and financial management operates differently depending on firm size, institutional setting, and stakeholder demands. In the Small, Medium, and Enterprise context, financial and management accounting are critical enablers of growth and survival, yet their effectiveness is often constrained by limited resources and low financial literacy among owner-managers. Financial accounting plays a critical role in providing external credibility and facilitating access to bank loans, grants, and investor funding, as formal financial statements are often required by lenders and investors (World Bank, 2016). However, many SMEs face significant challenges in compliance due to weak accounting capacity and reliance on informal record-keeping practices, which can limit their ability to secure external finance effectively (Mwanza & Daka, 2025). Management

accounting, on the other hand, equips SMEs with tools for planning, cost control, and performance monitoring, directly influencing working capital management and long-term sustainability (Gustomi et al., 2025). A comprehensive review on financial literacy among SMEs highlights that higher literacy levels enhance financial attitudes, budgeting behavior, and access to finance, contributing directly to firm performance (Graña-Álvarez et al., 2022). Finally, emerging literature on the intersection of management accounting, artificial intelligence, and digital transformation suggests that technology democratizes access to timely management information for SMEs, although adoption inequality persists unless skill gaps are addressed through policy and training (Abbas, 2025). Strengthening both forms of accounting through training, digital tools, and targeted literacy programs emerges as a critical pathway for SMEs to secure funding, improve operations, and ensure survival in competitive environments (Dlamini, 2024).

In the public sector, financial and management accounting play complementary roles in enhancing fiscal discipline, accountability, and decision-making. Financial accounting, particularly through the adoption of accrual-based reporting and international standards such as IPSAS, provides transparency in the use of public resources and fosters trust among stakeholders by aligning reported information with fiscal realities (Azhar et al., 2021; Cuadrado-Ballesteros & Bisogno, 2021). Thematic reviews of IPSAS adoption literature reveal both benefits, such as improved comparability and stewardship and persistent challenges related to capacity, legal frameworks, and IT systems, especially in developing economies (Scannell and Taiwiah, 2024). Country-specific assessments in Algeria highlight that IPSAS serves as a strategic foundation for fiscal governance, yet successful implementation depends on political commitment, training, and phased reform (Benzine, 2024). Other systematic studies emphasize that compliance with IPSAS is determined largely by contextual and institutional factors, including oversight mechanisms and local government capacity (Attefah et al., 2025). Moreover, empirical evidence from higher education and local government contexts suggests that accrual-based reporting combined with managerial accounting tools contributes to better fiscal outcomes, including lower debt ratios, improved efficiency, and more credible budgets (Kim & Chung, 2023). The integration of financial and management accounting in the public sector is increasingly seen not just as a compliance mechanism, but as a strategic foundation for sound fiscal governance and responsive public financial management.

Across both SME and public-sector settings, financial literacy emerges as a critical determinant of effective financial management. Limited financial knowledge constrains accounting use and impairs decision-making, yet empirical evidence shows that targeted literacy interventions and accessible accounting systems significantly improve financial behavior, credit access, and firm performance. For instance, Gosal and Nainggolan (2023) demonstrate that digital financial literacy shapes SMEs' financial behavior and well-being, while Christanty et al., (2023) show that robust accounting information systems and high-quality financial reporting strengthen SME outcomes even when literacy gaps persist. Comprehensive reviews of SME financial literacy reports consistent links between higher literacy and improved financial behavior, credit access, and operational performance

(Rehman and Mia, 2024). Similarly, Pramono et al., (2025) highlights how financial literacy and inclusion improve SME operational performance. SME owners and managers who have a good understanding of finance and access to formal financial services can make better financial decisions, manage risks more effectively, and improve company performance, and a bibliometric review underscores the growing research focus on SMEs' financial literacy as a determinant of sustainable growth (Devender et al., 2025). Importantly, the evolving literature suggests that future policy and practice should focus on dual pathways, enhancing financial literacy through education and improving access to user-friendly, digitalized accounting systems to support SME resilience and long-term growth.

Research Method

This paper employs a qualitative literature review approach to synthesize existing research on the relationship between financial and management accounting and their roles in enhancing financial management. The review relies entirely on primary and secondary sources, including peer-reviewed journal articles, academic books, and institutional reports published between 2015 and 2025. Sources were identified using databases such as Scopus, Google Scholar, and ResearchGate, with keywords including financial accounting, management accounting, financial management, digital accounting systems, and corporate governance. Studies were selected based on their relevance to three main themes: (1) transparency and governance in financial reporting, (2) management accounting as a decision-support tool, and (3) integration of accounting systems through digitalization and sustainability practices. The selected literature was analyzed thematically to identify common findings, theoretical alignments, and contextual variations across corporate, SME, and public-sector settings.

Results and Discussion

The findings of the review indicate that financial and management accounting systems collectively form the informational infrastructure necessary for effective financial management. Their contributions, however, manifest differently depending on reporting objectives, managerial needs, and organizational context.

Financial accounting consistently emerges as a central mechanism for enhancing transparency, accountability, and investor confidence. Across the reviewed studies, high-quality financial reporting, characterized by reliability, timeliness, and adherence to international standards, is shown to reduce information asymmetry, strengthen governance structures, and improve the credibility of both private and public institutions. Transparent reporting ultimately facilitates more efficient capital allocation and mitigates agency conflicts. Nonetheless, the literature highlights that transparency yields its full benefits only when financial information is systematically embedded into managerial processes, rather than treated solely as a compliance function.

In parallel, management accounting serves as the operational backbone of financial management, translating financial and non-financial data into insights that guide decision-making. Modern management accounting systems extend beyond traditional cost recording

to include strategic budgeting, forecasting, performance measurement, and resource optimization. Empirical evidence shows that organizations employing robust management accounting practices achieve superior financial performance due to enhanced decision speed, cost control, and strategic alignment. Digitalization amplifies these effects by enabling real-time reporting, predictive analytics, and scenario modeling. The effectiveness of management accounting, however, depends on the quality, timeliness, and relevance of the information produced, emphasizing the need for systems that integrate both financial and operational data.

The review further reveals that the integration of financial and management accounting, largely enabled by digital transformation, marks a major evolution in contemporary financial management. Technologies such as artificial intelligence, business intelligence, blockchain, and cloud accounting facilitate seamless data exchange across functional areas, reducing reconciliation burdens and enhancing both internal decision-making and external reporting. Integrated systems support multidimensional analysis, automate routine tasks, and provide managers with forward-looking insights that strengthen risk management and long-term planning. Accounting systems thereby shift from fragmented reporting mechanisms to interconnected, intelligence-driven platforms that support organizational resilience and adaptive strategy.

However, the findings also underscore that the benefits of integrated accounting systems are not uniform across contexts. In SMEs, limited financial capacity, human resource constraints, and varying levels of financial literacy restrict the adoption and effective use of advanced accounting tools. While financial accounting enhances external legitimacy and access to finance, management accounting plays a more immediate role in operational efficiency and cash-flow management. Emerging digital tools, particularly cloud accounting and mobile-based systems, help alleviate capacity constraints, but their success relies heavily on improving financial literacy and digital readiness among SME owners and managers.

In the public sector, integration between financial and management accounting has improved fiscal transparency, budget credibility, and evidence-informed decision-making. The adoption of accrual accounting and IPSAS has strengthened stewardship and comparability; yet challenges remain in translating reported information into actionable managerial insights. Effective public financial management, therefore, requires not only technical reforms but also sustained investments in capacity building, data governance, and digital infrastructure.

Conclusion

The primary value of financial and management accounting systems lies in their integration, which links external reporting with internal decision-making to support enhanced planning, governance, and organizational adaptability. When effectively implemented, these systems facilitate strategic decision-making by providing timely, accurate, and relevant information. The synthesis of contemporary literature demonstrates that the combined application of digitalization, business intelligence, and sustainability

reporting significantly enhances the relevance, reliability, and strategic utility of accounting information. This underscores that accounting extends beyond traditional compliance or record-keeping functions, serving instead as a mechanism to strengthen governance, improve performance, and foster resilience across corporate, SME, and public-sector contexts. Furthermore, the review emphasizes that financial literacy, technological competence, and system integration are critical determinants of the effectiveness of accounting systems, particularly in resource-constrained settings.

Future research should empirically examine the causal pathways linking integrated accounting systems, digital transformation, and organizational performance, with particular attention to SMEs and public-sector entities where contextual constraints may influence outcomes. Studies exploring the adoption of emerging technologies such as artificial intelligence, blockchain, predictive analytics, and ESG-driven reporting will be essential to understand their implications for next-generation accounting practices and strategic financial management. Practically, organizations should prioritize the alignment of accounting systems with digital tools, invest in capacity building for financial literacy, and embed sustainability metrics within decision-making frameworks. Policymakers and professional bodies can further support these efforts by promoting standardization, providing training programs, and facilitating access to digital accounting solutions, thereby ensuring that accounting systems serve as both a strategic and operational foundation for effective financial management.

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