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Bachelor of Business Administration (BBA) | Fifth Semester | UK5SECMGT301

Computerized Accounting

Course Code: UK5SECMGT301 • Module 3 Notes

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Company Creation and Core Ledger Operations

University of Kerala • FYUGP BBA Semester V • UK5SECMGT301 Module 3 Notes

1. Architectural Foundations of Company Creation in CAS

In computerized accounting systems, establishing a new commercial entity begins with **Company Creation**. The company file serves as the isolated, secure database container within which all chart of accounts masters, customer files, vendor ledgers, inventory categories, and transactional vouchers reside. Configuring company parameters correctly during initial setup is vital, as fundamental parameters govern currency formatting, statutory tax rules, and fiscal calendar dates across the entire operational lifecycle.

Key Data Fields in Company Creation

- **Company Name and Mailing Details:** The legal registered trade name of the business entity as recognized by the Registrar of Companies (ROC) or tax authorities. The mailing name and address appear automatically on all printed GST tax invoices, purchase orders, payment receipts, and formal external correspondence.
- **State, Country, and PIN Code:** Essential geographic attributes that determine statutory tax jurisdictions. In the Indian Goods and Services Tax (GST) architecture, the selected state dictates whether transactions trigger Intra-State GST (CGST + SGST) or Inter-State GST (IGST).
- **Currency Symbol and Formal Name:** Defining the base reporting currency (e.g., Symbol: ₹, Formal Name: INR - Indian Rupee). In modern multi-currency CAS packages, users specify decimal character representations, number of decimal places (typically 2), and the formal name of fractional units (Paise).
- **Financial Year Beginning From:** The formal twelve-month fiscal accounting cycle mandated by statutory laws (in India, consistently commencing on April 1 of a calendar year and concluding on March 31 of the subsequent year).
- **Books Beginning From:** The exact calendar date on which the business entity actually commenced commercial operations or migrated to the CAS. For a newly incorporated startup founded on September 15, the financial year begins on April 1, but books of accounts begin on September 15. The software strictly prohibits entering any financial voucher prior to the "Books Beginning From" date.

Security Vault, Access Controls, and Encryption

To safeguard sensitive commercial books against industrial espionage, unauthorized tampering, or casual terminal inspection, modern CAS packages incorporate multi-tiered security features:

- **TallyVault Password (Cryptographic Container Encryption):** Advanced proprietary encryption that scrambles the raw data directory on disk. Even the company name is masked in the company selection menu (displayed merely as asterisks, e.g., `***** (10002)`). Without the

TallyVault password, raw database files cannot be decrypted or decompiled even by forensic data recovery engineers.

- **User Access Control (Security Control):** Activating administrative security creates an Administrator login ID and password. The administrator defines granular user roles (e.g., Billing Operator, Warehouse Clerk, Auditor), assigns individual passwords, and enforces credential expiration rules.
- **Disallowing Opening in Educational Mode:** Commercial licenses can be configured to block the company file from being opened in unlicensed educational software versions, preventing unauthorized data extraction outside the office.

2. Master Setup: The Logic of Groups, Sub-Groups, and Ledgers

Computerized accounting eliminates physical paper ledger cards by organizing all commercial accounts into a logical relational hierarchy: **Primary Groups → Sub-Groups → Ledger Accounts**.

The 28 Predefined Groups Architecture in Standard CAS

Standard enterprise software (such as Tally Prime) provides 28 predefined accounting groups, partitioned into **15 Primary Groups** and **13 Sub-Groups**:

Group Category	Reporting Destination	Predefined Groups (Illustrative Examples)	Accounting Characteristics
Capital / Equity	Balance Sheet (Liabilities)	Capital Account, Reserves & Surplus	Owner funds, retained earnings, shareholder equity.
Non-Current Liabilities	Balance Sheet (Liabilities)	Loans (Liability), Secured Loans, Unsecured Loans	Long-term commercial bank borrowings, debentures.
Current Liabilities	Balance Sheet (Liabilities)	Current Liabilities, Sundry Creditors, Duties & Taxes	Trade payables, short-term debt, GST/TDS tax obligations.
Fixed Assets	Balance Sheet (Assets)	Fixed Assets	Tangible property, plant, machinery, office equipment.
Current Assets	Balance Sheet (Assets)	Current Assets, Sundry Debtors, Bank Accounts, Cash-in-hand	Liquid cash, customer receivables, inventory, bank deposits.
Direct Incomes	Trading / P&L Account	Sales Accounts, Direct Incomes	Core operational revenues from product/service billing.
Indirect Incomes	Profit & Loss Account	Indirect Incomes	Non-operating income: interest received, rent, discounts.
Direct Expenses	Trading Account	Purchase Accounts, Direct Expenses	Factory manufacturing wages, freight inward, raw materials.

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Group Category	Reporting Destination	Predefined Groups (Illustrative Examples)	Accounting Characteristics
Indirect Expenses	Profit & Loss Account	Indirect Expenses	Administrative salaries, office rent, advertising, depreciation.

Ledger Account Creation and Master Parameters

A **Ledger Account** is the actual transactional node to which journal entries and monetary amounts are posted. Creating a ledger account requires configuring vital master attributes:

- **Ledger Name and Alias:** The formal title of the account (e.g., "State Bank of India Corporate Current A/c") alongside optional short codes or numerical aliases (e.g., "SBI-01") enabling rapid keyboard selection during voucher entry.
- **Group Classification:** Assigning the ledger to its correct parent group. Correct grouping is paramount: if an administrative vehicle fuel expense is accidentally grouped under "Fixed Assets" rather than "Indirect Expenses," both the Profit and Loss Account and the Balance Sheet are permanently distorted.
- **Statutory and Tax Details:** For customer (Sundry Debtors) and vendor (Sundry Creditors) ledgers, entering the Permanent Account Number (PAN) and 15-digit Goods and Services Tax Identification Number (GSTIN). The software validates the GSTIN format and assigns registration type (Regular, Composition, Unregistered, Consumer).
- **Banking Configuration:** For bank ledgers, entering account numbers, bank IFSC codes, branch names, and enabling automated BRS (Bank Reconciliation Statement) and digital cheque printing templates.
- **Opening Balance:** Keying in the historical balance brought forward from the prior financial year, designating whether it represents an asset debit balance or a liability credit balance.

3. Typology and Functional Mechanics of Accounting Vouchers

In computerized accounting, financial transactions are never recorded by directly editing database tables. Every commercial entry must be executed through a standardized electronic **Voucher**. A voucher is the formal electronic evidentiary document recording the debit and credit effects of a business transaction.

Modern CAS platforms provide six foundational voucher types, accessible via dedicated functional keyboard keys:

1. Contra Voucher (Function Key: F4)

Reserved exclusively for purely internal monetary transfers involving cash and bank accounts, where funds move between liquid accounts without affecting enterprise net worth:

- Cash deposited into a commercial bank current account.
- Cash withdrawn from a bank account for office petty cash use.

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- Inter-bank funds transfers (transferring ₹2,00,000 from SBI Current A/c to HDFC Bank A/c).

2. Payment Voucher (Function Key: F5)

Used to record all commercial disbursements of funds made via cash, cheque, or electronic bank transfer (NEFT/RTGS/IMPS):

- Settling outstanding vendor invoices (debiting Sundry Creditor, crediting Bank/Cash).
- Disbursing operating expenses (paying administrative office rent, telephone bills, or travel allowances).
- Paying statutory government dues (remitting monthly GST liabilities or quarterly TDS challans).

3. Receipt Voucher (Function Key: F6)

Used to record all monetary inflows into the enterprise from external parties:

- Receiving payments from customers against outstanding sales invoices.
- Introducing fresh equity capital or partner funds into the business bank account.
- Receiving non-operating income (interest on fixed deposits, rental receipts, bad debt recoveries).

4. Journal Voucher (Function Key: F7)

A non-cash, non-bank adjusting voucher utilized for non-routine accounting entries, period-end provisions, and correcting entries:

- Recording annual depreciation on plant, machinery, and office computers.
- Posting period-end accruals (outstanding salaries, prepaid insurance adjustments).
- Writing off irrecoverable customer accounts to Bad Debts.
- Purchasing or disposing of fixed capital assets on credit from machinery vendors.

5. Sales Voucher (Function Key: F8)

Used to record the sale of goods or rendering of services to customers:

- **Item Invoice Mode:** Standard for trading and manufacturing enterprises; includes inventory item names, quantities, unit rates, discount percentages, and automated GST calculation.
- **Accounting Invoice Mode:** Used by service-sector enterprises (e.g., legal consulting, auditing) where services are billed directly against service income ledgers without physical inventory units.
- **As Voucher Mode:** Classical double-entry screen displaying explicit Debit and Credit input rows.

6. Purchase Voucher (Function Key: F9)

Used to record inward commercial purchases of goods from suppliers or inward procurement of business services, updating inventory stock quantities, accounts payable, and Input Tax Credit (ITC) ledgers.

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Voucher Type	Keyboard Shortcut	Permitted Account Types	Typical Real-World Business Transaction
Contra	**F4**	Only Cash and Bank accounts	Deposited ₹50,000 office cash into SBI Current Account.
Payment	**F5**	Cash/Bank credited; any account debited	Paid monthly warehouse rent ₹35,000 via electronic RTGS.
Receipt	**F6**	Cash/Bank debited; any account credited	Received ₹1,20,000 from client ABC Enterprises via NEFT.
Journal	**F7**	Any accounts; Strictly NO Cash or Bank	Charged ₹18,000 annual depreciation on delivery vehicles.
Sales	**F8**	Customer/Cash debited; Sales credited	Sold 50 units of air conditioners to retail dealer on 30-day credit.
Purchase	**F9**	Purchase debited; Vendor/Cash credited	Purchased 100 metric tons of raw steel from Tata Steel on credit.

4. Voucher Entry Mechanics: Modes, Narrations, and Controls

The operational efficiency of a computerized accounting environment depends on mastering voucher entry mechanics:

Single Entry Mode vs. Double Entry Mode

- **Single Entry Mode:** A simplified entry layout designed for rapid payment and receipt logging. The user selects a single header account (e.g., "Cash" or "Bank"), and lists multiple recipient expense or creditor ledgers below it with their respective monetary amounts. The software automatically handles the offsetting debit and credit entries behind the scenes.
- **Double Entry Mode:** The classical accounting layout where the operator explicitly enters every transaction using traditional **To / By** or **Dr / Cr** designations. This mode is mandatory for complex compound journal entries and non-cash asset adjustments.

The Legal and Auditing Significance of Narration

A **Narration** is a concise, precise written factual description entered at the foot of every voucher explaining the exact commercial purpose and context of the transaction. A voucher lacking an adequate narration creates immense audit friction during statutory inspections. A professional narration must cite:

- External supporting document numbers (e.g., "Being payment against Vendor Invoice No. 1042 dated 12-Oct-2026").
- Commercial banking transaction references (e.g., "Paid via HDFC Bank NEFT UTR No. N10226488392").

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- Managerial authorization references (e.g., "Approved as per Board Resolution dated 01-Aug-2026").

5. Stock Valuation Methodologies in CAS

In enterprises trading physical merchandise or manufacturing goods, inventory represents the largest component of current assets on the Balance Sheet and directly dictates Cost of Goods Sold (COGS) on the Profit and Loss Account.

$$\text{COGS} = \text{Opening Stock} + \text{Net Purchases} - \text{Closing Stock}$$

Formula Legend:
COGS = Cost of Goods Sold during the accounting period.
Opening Stock = Value of unsold inventory brought forward from the prior fiscal period.
Net Purchases = Gross purchases less purchase returns and trade discounts.
Closing Stock = Valuation of unsold inventory physically on hand at the period close.
Because procurement prices fluctuate continuously over time due to inflation, bulk discounts, and shipping surcharges, assigning an accurate monetary cost to goods issued and ending stock requires mathematical valuation models.

The Four Classical Valuation Methods

- **1. First-In, First-Out (FIFO):** Assumes that the oldest units acquired are the first units sold or issued to production. Ending inventory consists of the most recently purchased batches, reflecting current market replacement costs. During inflationary periods, FIFO yields lower COGS, higher reported net profits, and higher ending inventory values.
- **2. Last-In, First-Out (LIFO):** Assumes that the most recently purchased units are issued first. During inflation, LIFO matches current high costs against current revenues, depressing reported profits. *Important Statutory Note:* LIFO is strictly prohibited under Indian Accounting Standard 2 (Ind AS 2) and International Accounting Standard 2 (IAS 2) for financial reporting, though some CAS packages retain it for internal management simulations.
- **3. Weighted Average Cost (WAC):** Calculates an updated weighted average unit cost following every incoming purchase batch by dividing the total cumulative cost of goods available for sale by the total quantity available. Issues are priced at this moving average, smoothing out sudden price spikes.
- **4. Standard Cost Method:** Inventory is valued at a predetermined, engineered standard cost. Variances between actual purchase costs and standard costs are isolated in dedicated Material Price Variance accounts.

$$\text{Weighted Average Unit Cost} = \sum Qi \sum (Qi \times Ci)$$

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Formula Legend:
Q_i = Physical quantity of units acquired in incoming purchase batch *i*.
C_i = Unit purchase cost (including inward landed freight) of batch *i*.
\sum (Q_i \times C_i) = Total cumulative monetary cost of inventory available for sale.
\sum Q_i = Total physical number of units available for sale.

6. Comprehensive Worked Numerical Problem: Inventory Valuation in CAS

Operational Scenario: Cochin Logistics & Spares Ltd. trades commercial marine diesel filters. During the month of October 2026, the inventory sub-ledger recorded the following chronological transactions:

- **Oct 01: Opening Stock:** 100 units @ ₹400 per unit (Total value: ₹40,000).
- **Oct 08: Purchase Batch 1:** 200 units @ ₹450 per unit (Total cost: ₹90,000).
- **Oct 15: Outward Delivery A:** 150 units delivered to commercial clients.
- **Oct 22: Purchase Batch 2:** 150 units @ ₹500 per unit (Total cost: ₹75,000).
- **Oct 28: Outward Delivery B:** 120 units delivered to commercial clients.

At month-end (Oct 31), 180 units remain physically unsold in the warehouse. Calculate the **Cost of Goods Sold (COGS)** and **Ending Inventory Value** under both **FIFO** and **Weighted Average Cost** methods.

Step-by-Step Resolution: FIFO Method

1. Pricing Outward Delivery A (Oct 15 - 150 units):

- 100 units taken from Opening Stock @ ₹400 = ₹40,000
- 50 units taken from Oct 08 Purchase @ ₹450 = ₹22,500
- Total Cost of Delivery A = ₹40,000 + ₹22,500 = **₹62,500**
- *Remaining Stock on Hand:* 150 units of Oct 08 batch @ ₹450 = ₹67,500.

2. After Oct 22 Purchase (150 units @ ₹500):

- Stock consists of: 150 units @ ₹450 + 150 units @ ₹500 = 300 total units.

3. Pricing Outward Delivery B (Oct 28 - 120 units):

- 120 units taken from remaining Oct 08 batch @ ₹450 = **₹54,000**

4. Total Cost of Goods Sold (FIFO):

$$\text{COGS}_{\text{FIFO}} = \text{Rs. } 62,500 + \text{Rs. } 54,000 = \text{Rs. } 1,16,500$$

5. Ending Inventory Valuation (FIFO - 180 units remaining):

- 30 units remaining from Oct 08 batch @ ₹450 = ₹13,500
- 150 units remaining from Oct 22 batch @ ₹500 = ₹75,000
- Total Ending Inventory Value = ₹13,500 + ₹75,000 = **₹88,500**

Check: Total Cost Available (₹40,000 + ₹90,000 + ₹75,000 = ₹2,05,000) = COGS (₹1,16,500) + Ending Stock (₹88,500). Perfect reconciliation!

Step-by-Step Resolution: Moving Weighted Average Cost Method

1. Position on Oct 08 after Purchase:

- Total Quantity = 100 + 200 = 300 units.
- Total Cost = ₹40,000 + ₹90,000 = ₹1,30,000.
- Moving Weighted Average Rate = ₹1,30,000 / 300 = **₹433.33 per unit**.

2. Pricing Outward Delivery A (Oct 15 - 150 units):

- Cost of Delivery A = 150 units × ₹433.33 = **₹65,000**.
- Remaining Balance = 150 units @ ₹433.33 = ₹65,000.

3. Position on Oct 22 after Purchase (150 units @ ₹500 = ₹75,000):

- Total Quantity = 150 + 150 = 300 units.
- Total Cost = ₹65,000 + ₹75,000 = ₹1,40,000.
- New Moving Weighted Average Rate = ₹1,40,000 / 300 = **₹466.67 per unit**.

4. Pricing Outward Delivery B (Oct 28 - 120 units):

- Cost of Delivery B = 120 units × ₹466.67 = **₹56,000**.

5. Total Cost of Goods Sold (Weighted Average):

$$\text{COGS}_{\text{WAC}} = \text{Rs. } 65,000 + \text{Rs. } 56,000 = \text{Rs. } 1,21,000$$

6. Ending Inventory Valuation (Weighted Average - 180 units remaining):

$$\text{Ending Stock}_{\text{WAC}} = 180 \text{ units} \times \text{Rs. } 466.67 = \text{Rs. } 84,000$$

Check: Total Cost Available (₹2,05,000) = COGS (₹1,21,000) + Ending Stock (₹84,000). Perfect reconciliation!

Valuation Metric	FIFO Method	Moving Weighted Average (WAC)	Commercial & Tax Significance
Cost of Goods Sold (COGS)	**₹1,16,500**	**₹1,21,000**	FIFO yields lower COGS during rising prices, resulting in higher reported gross

Valuation Metric	FIFO Method	Moving Weighted Average (WAC)	Commercial & Tax Significance
			margin.
Ending Inventory Value	**₹88,500**	**₹84,000**	FIFO values balance sheet inventory closer to current market replacement costs.
Impact on Gross Profit	Higher Profit by ₹4,500	Lower Profit by ₹4,500	WAC smooths out purchase price spikes; FIFO accelerates tax obligations during inflation.

7. Debit Notes and Credit Notes: Commercial Workflows for Returns and Adjustments

In ongoing commercial trading, transactions rarely terminate with initial invoice delivery. Goods may be damaged in transit, shipments may arrive with missing quantities, or suppliers may grant volume rebates post-sale. These adjustments are executed via **Debit Notes** and **Credit Notes**:

1. Credit Note (Function Key: Alt+F6)

A formal financial document issued by a seller to a buyer, signaling that the buyer's accounts receivable ledger has been credited (reduced). Common commercial triggers include:

- **Sales Returns (Return Inward):** The customer rejects physical merchandise due to manufacturing defects or incorrect specifications and returns the items to the seller's warehouse.
- **Post-Sale Trade Discounts and Turn-Over Rebates:** Granting retroactive commercial rebates when a wholesale distributor surpasses annual purchase targets.
- **Rectification of Over-Billing Errors:** Correcting an original sales invoice where unit prices or tax rates were inadvertently billed at excessive rates.

2. Debit Note (Function Key: Alt+F5)

A financial document issued by a buyer to a seller, signaling that the seller's accounts payable balance has been debited (reduced):

- **Purchase Returns (Return Outward):** Returning damaged or rejected raw materials back to the supplier.
- **Recovering Short-Shipment Deficits:** Debiting the vendor's ledger when physical goods delivered are less than the quantities billed on the vendor's invoice.

Statutory GST Compliance in Note Generation

Under the Indian Goods and Services Tax (GST) Act, debit and credit notes carry profound legal consequences. The CAS software must link every credit note directly to the **Original Tax Invoice Number** and date. When a credit note is saved, the software automatically decrements the seller's

outward tax liability in Table 9B of GSTR-1 and triggers an automated adjustment in the buyer's GSTR-2B input tax credit ledger.

8. Multi-Currency Accounting and Automated Foreign Exchange Gain/Loss

In international trade, enterprises transact in multiple global currencies (e.g., US Dollars, Euros, UAE Dirhams) while maintaining books in their local base reporting currency (INR). Modern CAS packages incorporate specialized **Multi-Currency Engines**:

The operational mechanics of multi-currency processing follow a disciplined workflow:

- **Currency Master Setup:** Defining international currency symbols (e.g., $, €), formal names (USD, EUR), decimal places, and exchange rate tables.
- **Daily Exchange Rate Configuration:** The software maintains standard rates, buying rates (for export billing realization), and selling rates (for import remittances).
- **Voucher Posting:** When an export sales invoice is created, the user enters the foreign currency amount (e.g., $10,000 @ ₹83.50 = ₹8,35,000). The customer's sub-ledger tracks both the foreign currency value and the local base currency equivalent.
- **Automated Forex Gain / Loss Calculation:** If the client settles the $10,000 invoice two months later when the exchange rate has moved to ₹84.20, the enterprise realizes ₹8,42,000. During receipt voucher entry, the CAS automatically detects the ₹7,000 variance and posts an automated journal entry crediting **Foreign Exchange Gain Account** without requiring manual mathematical calculations.

9. Cost Center and Cost Category Accounting Architecture

While traditional accounting records transactions purely by natural ledger classification (e.g., "Office Rent" or "Travelling Expenses"), corporate leadership requires operational insight into which specific branches, projects, or executives incurred those costs. Creating separate ledger accounts for every department (e.g., "Travelling Expense - Kochi Branch," "Travelling Expense - TVM Branch") would expand the Chart of Accounts into an unmanageable monstrosity.

CAS resolves this challenge through **Cost Categories** and **Cost Centers**:

- **Cost Category:** The broad organizational dimension or department along which costs are tracked (e.g., "Geographic Branches," "Executive Projects," "Marketing Campaigns").
- **Cost Centers:** The specific operational units or subdivisions within that category (e.g., under Geographic Branches: Kochi Branch, Calicut Branch, Trivandrum Branch).
- **Voucher Allocation Mechanics:** When an accountant records a ₹60,000 travel expense payment voucher, the software displays a pop-up window prompting the operator to allocate the expense across relevant cost centers (e.g., ₹30,000 to Kochi Branch, ₹20,000 to Calicut Branch, and ₹10,000 to Trivandrum Branch). Executive management can extract comprehensive Profit and

Loss statements for individual branches at any time while keeping the primary Chart of Accounts completely clean.

10. Automated Bank Reconciliation Statements (Auto-BRS) and Cheque Printing

Maintaining financial harmony between the enterprise cash book (bank ledger) and official commercial bank statements is a daily operational necessity. Unreconciled variances mask bank charges, unauthorized direct debits, customer cheque bounces, and fraudulent employee withdrawals.

Cheque Management and Digital Printing

Modern CAS platforms eliminate error-prone manual cheque writing by incorporating pre-configured **Cheque Printing Modules**:

- **Dimensional Bank Alignment:** The software includes pre-calibrated dimensional templates for hundreds of Indian banks, specifying precise millimeter measurements for Payee Name, Amount in Words, Amount in Figures, Date, and "Account Payee Only" crossing rules.
- **Cheque Register and Leaf Tracking:** Assigning cheque book numbering ranges (e.g., Cheque No. 400101 to 400200). The system automatically tracks every physical leaf, logging whether each cheque is Issued, Uncleared, Reconciled, or Cancelled.

The Mechanics of Auto-BRS

Historically, manual Bank Reconciliation Statements required an accountant to sit with physical bank passbooks and paper ledgers, ticking off matching items with a pencil. In a modern CAS, **Auto-BRS** automates reconciliation:

1. **Electronic Statement Ingestion:** Downloading electronic bank statements directly from corporate net banking portals in standardized formats (CSV, Microsoft Excel, or SWIFT MT940 format).
2. **Algorithmic Transaction Matching:** The software's reconciliation engine compares statement transactions against cash book entries, matching records based on Cheque Number, Instrument Reference ID, and monetary value.
3. **One-Click Journal Posting:** Unrecorded transactions appearing on the bank statement—such as quarterly interest credits, bank service charges, or direct customer NEFT receipts—are identified automatically. The accountant can press Alt+J to instantly generate adjusting vouchers directly from the reconciliation screen.
4. **Reconciliation Certification:** The CAS extracts a formal Bank Reconciliation Statement displaying: *Balance as per Company Books + Amounts not reflected in Bank - Amounts not reflected in Company Books = Balance as per Bank Statement*, providing total mathematical certainty.

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