

SAM—INTRODUCTION TO UNIFORM SYSTEM OF ACCOUNTING

CHAPTER 7000 INDEX

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CHARACTER AND PURPOSE OF A SYSTEM OF ACCOUNTING

7110

(Renumbered 2/65)

System is defined as the orderly arrangement of parts and elements into a complete whole. An adequate accounting system is concerned with all phases of financial record keeping to the end that there be a complete coordination and that certain objectives be attained. A system of accounting for governmental finance must furnish the means of:

1. Rendering an accountability of the stewardship of each of the administrative officers of the governmental agencies.
2. Presenting currently and accurately the financial condition of each and all of the agencies and funds of government.
3. Producing comprehensive data relating to governmental finances as a history of past performance and as a guide for future action.
4. Providing effective executive financial control of all agencies.

NECESSITY FOR UNIFORMITY

7120

(Renumbered 2/65)

Uniformity of accounts and accounting procedure among the agencies of a government obviously is necessary. Hopeless confusion would result if each agency maintained its individual methods and accounts. Comparison among agencies would be impossible. Consolidation of detailed statements of agencies, each with dissimilar methods and classifications, into any such documents as an executive budget or Annual Report of the State Controller would be an overwhelming task.

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DISTINCTIVE FEATURES OF GOVERNMENTAL ACCOUNTING

7130

(Revised 5/85)

Although the basic principles of accounting apply in government as in commerce, certain features of governmental accounting make its pattern quite different from that of the typical set of commercial accounts. The underlying differences should be understood to avoid confusion that sometimes results in attempting to apply, with little or no modification, conventional commercial accounts to a governmental unit.

The distinctive features of governmental accounting are the reflection of the essential difference in the method of financing governmental operations as contrasted with business undertakings.

Private business must obtain its capital from voluntary investments made with the hope of deriving an increment. Private business, then, to survive must realize a profit over and above the cost of the commodities or services it sells in order to preserve its capital and to return a profit to its proprietors or shareholders. Accordingly, commercial accounts are focused upon "net profit"—the amount gained over costs, the difference between income and expenses—and "net worth"—the current value of the invested capital, the difference between assets and liabilities.

Government furnishes services to all directly or indirectly and levies taxes or provides other revenue measures to meet the cost of those services. Governmental accounting usually has no "net profit" to report. Particular sources of revenue generally have no direct relation to particular items of expenditures. An excess of revenues over expenditures is not "net profit" and is not necessarily an indication of good financial policy in the government unit. Capital invested in government by its citizen-proprietors (represented by such capital assets as land, buildings, highways, and equipment) is investment in future public services. "Net worth," if that term can be employed, of a governmental unit has an entirely different significance from "net worth" of a commercial enterprise.

Another difference is the necessity that the governmental unit account its authorizations to incur expenditures. It is a long established principle of free government that public moneys be expended only as authorized by the legislative body. Hence, the governmental unit must maintain budgetary accounts in which are reflected the authorization for expenditures. While large commercial organizations are coming more and more to establish budget procedures somewhat similar to those employed by government, the budget and the accounts essential to its operation are still largely a distinctive feature of governmental accounting.

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DISTINCTIVE FEATURES OF GOVERNMENTAL ACCOUNTING

7130 (Cont. 1)

(Revised 5/85)

Still another peculiar characteristic of governmental accounting is the employment of separate funds. A business enterprise, even the largest and most extensive, usually is engaged in activities closely interrelated with the ultimate objective of profit in one particular field. The governmental unit, on the other hand, is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. Particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund." While a business concern can maintain a single set of accounts for all of its transactions, a governmental agency must maintain a number of independent sets of accounts, one for each "fund."

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HISTORY OF STATE OF CALIFORNIA ACCOUNTING

7140

(Revised 5/85)

The need for a uniform system of accounting for California State agencies was first recognized in 1911, when the Legislature established the Department of Public Accounting. This department, under the State Board of Control, was charged with the duty of devising and installing a uniform system of accounting and reporting "to the end that there shall be a general systematic and uniform check upon the receipt and disbursement of public revenues." In 1921, this duty was transferred to the then newly-formed [Department of Finance](#). In 1965, the duty of prescribing uniform accounting procedures (see Section 14626, Government Code) was transferred to the newly-formed Department of General Services. In 1973, Section [13300](#) was added to the Government Code transferring duties related to the State accounting systems back to the Department of Finance.

The first accounting manual for California State agencies was published in 1920. This manual described the system then in use. Later, in 1929 and again in 1934 and 1939, revised manuals were published which incorporated various modifications and changes but left the fundamentals of the system virtually unchanged. It was not until 1951 that substantial changes were made to the system. They were made largely to meet an increasing need for more-comprehensive and more-timely reporting of State financial affairs which was caused by the rapid post-way growth of California's population and its State government. At that time the accounting manual was revised and designated as the fiscal affairs section of the State Administrative Manual ([SAM](#)).

In 1959, the chart of General Ledger accounts was devised, and released by Management Memo, which provided greater standardization and integration between the accounts maintained by agencies and those maintained by the State Controller's Office. It also provided greater standardization among agency accounts for Non-Governmental Cost Funds.

In 1965, the fiscal affairs section of SAM was revised to incorporate the revised chart of accounts and other procedures that had been adopted since the last general revision of the accounting manual.

Under provisions of AB 3322, Chapter 1284/78, all State agencies are required to have a fully automated accounting and program cost accounting system. A study of the State's basis of accounting and general ledger was undertaken by the Department of Finance, with advice from the General Ledger and Accounting Basis Advisory Committee and a national certified public accounting firm. This study included a review of the State's general ledger accounts and account titles. This study resulted in standardizing the accounts to facilitate reporting in automated systems and the restructuring and renaming of the accounts for conformance with Generally Accepted Accounting Principles. SAM Chapters [7400](#) and [7600](#) provide further detail on the State's basis of accounting and general ledger accounts.

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SYSTEM OF ACCOUNTS

7150

(Revised 3/00)

The uniform accounting system for California state departments was devised pursuant to Government Code Section [13300](#) and is contained in SAM Sections [7000–19000](#).

Proprietary and fiduciary funds often require complete special manuals of accounting instructions. Accounting manuals for such funds will be prepared by the departments concerned—based upon principles prepared by or approved by the Fiscal Systems and Consulting Unit ([FSCU](#)), Department of Finance, and will be sent to FSCU for general review before being placed in effect. Departments are responsible for keeping current their accounting manuals. Amendments to such manuals will be sent to FSCU for approval before such changes are incorporated in the system. Departments will send copies of approved manuals and approved amendments to such manuals to the State Controller's Office, Division of Accounting and Reporting and FSCU.

The major objectives of the system of accounts are:

1. Coordination of the system of accounts kept by the individual state departments with the central accounts kept by the [State Controller's Office](#).
2. Uniform and consistent accounting and reporting among all state departments insofar as requirements for accounting data and practical considerations permit.
3. Consistency between accounting and budgeting procedures.
4. Uniform reporting by all state departments for inclusion in financial statements prepared by the State Controller's Office.

The State's uniform codes that must be used on budgeting and accounting documents and records are contained in the Uniform Codes Manual. This manual is maintained by FSCU and can be accessed on the Internet at http://www.dof.ca.gov/Accounting/Policies_and_Procedures/Uniform_Codes_Manual/.