A company must have an accounting system. A basic accounting system can be traced using the equation:

where is Asset, is Liability, and is stockholders' equity. At an any point in time, this equation must balance out to zero – the amount of asset has to be equal to the sum of liability and stockholders' equity.

Asset is what the company has at a given time. Asset is a debit balance account – the value of assets increases with debit and decreases with credit. T-account is the member of each account. Common T-Account of Asset:

* Cash
* cash-equivalents
* short-term deposit
* account receivables
* inventory
* office supplies
* Equipment
* Land
* Building
* machinery
* patents
* trademark

Liability is what the company owe at a given time. Liability is a credit account – the value of liability increases with credit and decreases with debit. Common T-account of Liability:

* Notes-payable

Stockholders' equity is what funds the company. It is also a credit account. Stockholders' equity consists of 2 main parts, which are contributed capital and earned capital. Contributed capital consists of 2 accounts which are common stock and additional paid-in capital. Earned capital consists of only 1 account which is retained earnings – retained earnings consists of revenue (credit account) and expenses account (debit account).

Journal entry is an accounting method to express the effects of a transaction on accounts. It has to be written in debit-equal-credit format – the amount of credit and credit in each journal entry must equal out to 0.

Common Types of transactions

1. issuing(selling) a share
   1. Db Cash(+A)
   2. Cr Common stock(+SE) (par value \* number of shares)
   3. Cr Additional paid-in capital(+SE) (the difference between cash and common stock)
2. Borrowing money
   1. Db Cash(+A)
   2. Cr Notes-Payable(+L)