

## 5-1

## Checking Accounts

## GOALS

- Explain the purpose and use of a checking account.
- Prepare checks and deposit slips and maintain a checkbook register.
- Prepare a bank reconciliation and understand account fees and choices.

## KEY TERMS

- checking account, p. 149
- check, p. 149
- checkbook register, p. 150
- deposit, p. 150
- withdrawal, p. 151
- postdated check, p. 152
- debit card, p. 153
- endorsement, p. 153
- electronic funds transfer, p. 155
- bank reconciliation, p. 156

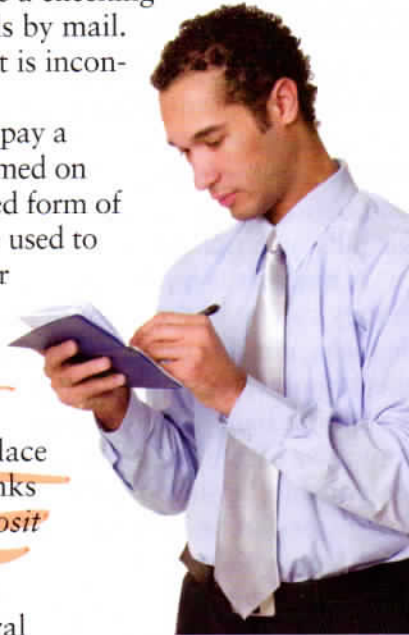
## What Is the Purpose of a Checking Account?

Commercial banks, savings and loans, savings banks, and credit unions offer various types of accounts to consumers. Collectively, all these financial institutions will be referred to as *banks*. Checking accounts, savings accounts, certificates of deposit (CDs), and money market accounts are popular account choices. In this lesson, we will focus on checking accounts.

A **checking account** is a demand deposit account on which checks are drawn. It provides a safe place to keep money and allows users easy access to the money in the account. It is a *demand deposit account* because the account holder may withdraw money on demand or write checks on the account at any time. Most people have a checking account for the convenience of paying bills by mail. It is not a safe practice to send cash, and it is inconvenient to buy a money order each time.

A **check** is a written order to a bank to pay a stated amount to the person or business named on the face of the check. Checks are an accepted form of payment for most bills. Checks may also be used to purchase items in stores. Writing a check for a major purchase is safer than carrying a large amount of cash. A *canceled check* (one that has been processed) also serves as proof of payment for bills or purchases.

A checking account provides a safe place to keep money. Checking accounts at banks generally are insured by the *Federal Deposit Insurance Corporation (FDIC)* up to the legal limit of \$250,000 per depositor per bank. The FDIC is an agency of the federal government. By insuring deposits in banks, the FDIC helps to promote public confidence in the U.S. financial system.



*Why should you use a checking account rather than cash to pay for purchases and bills?*

**checking account** a demand deposit in a bank on which checks are drawn

**check** a written order to a bank to pay a stated amount to a person or business

**Figure 5-1.1 Checkbook Register**

| CHECK NO. OR TRANSACTION CODE | DATE    | DESCRIPTION OF TRANSACTION | PAYMENT/ DEBIT (-) |        | FEE (-) | ✓ | DEPOSIT/ CREDIT (+) |  | BALANCE |    |
|-------------------------------|---------|----------------------------|--------------------|--------|---------|---|---------------------|--|---------|----|
|                               |         |                            |                    |        |         |   |                     |  | \$      |    |
| 581                           | 7/1/--  | Food Mart                  | \$                 | 36 12  | .20     |   |                     |  | 36      | 32 |
|                               |         | Groceries                  |                    |        |         |   |                     |  | 763     | 68 |
| DEP                           | 7/15/-- | Deposit Paycheck           |                    |        |         |   | 220 50              |  | 220     | 50 |
|                               |         |                            |                    |        |         |   |                     |  | 984     | 18 |
| WD                            | 7/16/-- | ATM Withdrawal             |                    | 20 00  |         |   |                     |  | 20      | 00 |
|                               |         |                            |                    |        |         |   |                     |  | 964     | 18 |
| 582                           | 7/20/-- | Bellvue Apts.              |                    | 600 00 | .20     |   |                     |  | 600     | 20 |
|                               |         | Rent                       |                    |        |         |   |                     |  | 363     | 98 |
| ON                            | 7/22/-- | Metro Gas & Electric       |                    | 32 50  |         |   |                     |  | 32      | 50 |
|                               |         | Online Payment             |                    |        |         |   |                     |  | 331     | 48 |
| SC                            | 7/31/-- | Monthly Account Fee        |                    |        | 5.00    |   |                     |  | 5       | 00 |
|                               |         | July                       |                    |        |         |   |                     |  | 326     | 48 |

In the first column of the register, list the check number or a code to identify the transaction. For example, enter a code such as DEP for deposit, WD for withdrawal, ON for online payment, or SC for service charge. The check number 581 is entered on the first line of the register in Figure 5-1.1.

In the Date column, enter the current date. (The characters "--" are used in Figure 5-1.1 to represent the current year.) In the Description of Transaction column, enter the name of the person or business to whom the check is written. You can also enter the purpose for the check. For example, "Groceries" is entered on line 2 of the register in Figure 5-1.1.

In the Payment/Debit column, enter the amount of the check or other withdrawal. If there is a check fee, enter that amount in the Fee column. In the register in Figure 5-1.1, \$0.20 is entered as the check fee. When making a deposit, enter the amount in the Deposit/Credit column. Carry the amount of the payment plus any fee or the deposit to the Balance column. Then subtract the payment or add the deposit amount to find the new balance.

### CHECKPOINT ▶ ▶ ▶

What are the benefits of using checks?

## How Do You Write Checks and Make Withdrawals?

An advantage of having a checking account is that the funds are easy to access. When you take money from your account, it is called a **withdrawal**. The account holder can write a check, use a debit card, withdraw cash at an automated teller machine (ATM), or set up a bill to be paid each month automatically. With an **automatic withdrawal**, money is deducted from your account electronically and transferred to another party on a regular basis. For example, insurance premiums could be deducted from your account and transferred to your insurance company. The main

**withdrawal** taking money from your account



If you make a mistake when writing a check, begin again with a new check. On the check with the error, write VOID in large letters. In the checkbook register, write VOID over the entry in the Description of Transaction column. Draw a line through the check amount and the balance amount. Record the check data again, using the new check number.

## USING DEBIT CARDS AND ATM CARDS

Your bank may issue you a **debit card**, which can be used to withdraw or deduct money from your checking account. It allows you to withdraw cash at an ATM. It also allows you to make purchases by swiping the card through a point-of-sale (POS) terminal at a store's check-out counter. The effect is the same as writing a check, but the money is electronically removed from your account (debited) and transferred to the business's account. You may also be provided with an *ATM card*, which is similar to a debit card, but its use is limited to withdrawals and deposits made at ATM machines. It cannot be used to make purchases.

When using an ATM card or debit card with an ATM or POS terminal, the account holder must also enter a personal identification number (PIN) or password. The PIN gives access to the account, so it must be guarded carefully. In some systems, a signature is also required.

Debit cards do not have all the same protections provided with credit cards. Credit cards allow you to reverse or dispute charges. If a debit card is lost or stolen, funds can be removed from your account. Debit cards should not be used for certain types of purchases, such as online purchases where your account information may be unprotected or purchases requiring deposits for which a hold may be placed on your funds.

## PROTECTING YOUR ACCOUNT DATA

~~Check fraud occurs when someone alters a check by changing its amount to obtain more money from another person's account. Forgery is the act of signing another person's name on a check.~~ Identity theft occurs when someone uses your personal data without your permission to make purchases, withdraw cash, or borrow money. To help protect yourself from crime, write checks in a proper manner and keep your supply of unused checks in a safe location. When using a debit card or an ATM card, protect your PIN or password and account number. Do not give out your bank account number unless you are sure the person or company receiving it is reputable.

## MAKING DEPOSITS

A short time after opening an account, the account holder will usually receive personalized deposit slips, along with checks. Blank deposit slips available at the bank can also be used. Figure 5-1.3 shows a deposit slip for a checking account. Note that the depositor's name and address are printed on the slip. The account number appears at the bottom of the slip.

Checks to be deposited must be properly endorsed. An **endorsement** is a signature, with or without instructions, written on the back of a check. It authorizes the bank to cash or deposit the check. If a check is



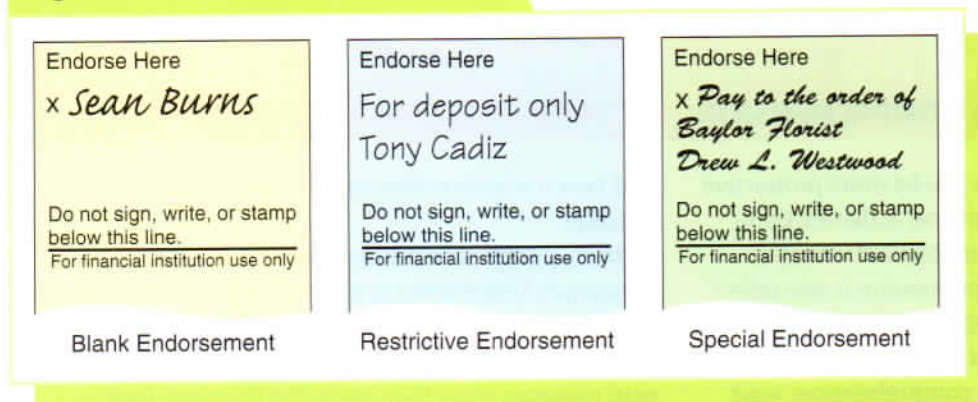
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Why would you use your ATM card to get cash rather than cashing a check?

**debit card** a card used to withdraw or deduct money from your checking account

**endorsement** a signature, with or without instructions, written on the back of a check

**Figure 5-1.4 Check Endorsements**



6. Enter the net deposit amount (subtotal less cash to be received) in the Net Deposit section.

7. Make an entry in your checkbook register to record the deposit.

Deposits can be made in person or at an ATM. If you make a deposit at an ATM, follow the instructions on the screen and get a receipt. Verify that the receipt shows the correct amount of the deposit. It can take a few days for a deposit to be processed, so the account holder may not have access to the money deposited immediately.

### Third-Party Checks

A special endorsement creates a *third-party check*, which is a check issued by the check writer (drawer) to the payee, who then endorses and transfers it to a third party. Many banks will not deposit or cash the check from the third party unless he or she has an account with the bank. If the check is bad, the amount of the check will come out of the third party's account. If a bank refuses to cash a third-party check, you may have to use a check-cashing service. A check-cashing business charges a high fee, often a percentage of the check amount.

### Direct Deposits

With a *direct deposit*, wages or benefits are automatically deposited into a bank account electronically. An **electronic funds transfer** (EFT) uses a computer-based system to move money from the drawer's account to the payee's account. EFTs are used for automatic withdrawals and deposits. Many people receive social security payments in this manner. Many businesses electronically deposit their employees' net pay. This usually makes it available to employees on the same day it is deposited. The main advantage for account holders is that they have instant access to their money. This method is also safer and more convenient than carrying checks to the bank for deposit.

**electronic funds transfer** the use of a computer-based system to move money from the drawer's account to the payee's account

## CHECKPOINT ▶▶▶

Why might it be better to use a restrictive endorsement?



- Compare your checkbook register with the bank statement. Verify that the amount of each deposit made is shown correctly on the bank statement. Place a check mark in the check mark (✓) column of the register by each deposit that is shown on the bank statement.
- On the reconciliation form, list the date and amount of any deposits you made that do not appear on the bank statement. These are called *deposits in transit*. Total the deposit amounts. Add the total deposits in transit to the bank statement balance. Place this amount on the Subtotal line.

**Figure 5-1.5 Bank Reconciliation**

**RECONCILIATION OF BANK STATEMENT**

Date August 3, 20--  
 Account No. 942869

Bank Statement Balance on July 31, 20-- \$ 966.68

Add Deposits in Transit and Other Credits

| Date             | Amount        |
|------------------|---------------|
| <u>7/31/20--</u> | <u>220.50</u> |
|                  |               |
|                  |               |

Total Deposits in Transit/Credits 220.50

Subtotal 1,187.18

Deduct Outstanding Checks/Withdrawals

| Check No.  | Date             | Amount       |
|------------|------------------|--------------|
| <u>580</u> | <u>7/2/20--</u>  | <u>20.00</u> |
| <u>581</u> | <u>7/29/20--</u> | <u>36.12</u> |
| <u>ATM</u> | <u>8/1/20--</u>  | <u>40.00</u> |
|            |                  |              |
|            |                  |              |

Total Outstanding Checks/Withdrawals 96.12

Adjusted Bank Balance \$ 1,091.06

Checkbook Register Balance on August 3, 20-- \$ 1,096.06

Deduct Bank Charges

| Description                        | Amount      |
|------------------------------------|-------------|
| <u>Service charge, monthly fee</u> | <u>5.00</u> |
|                                    |             |
|                                    |             |

Total Bank Charges 5.00

Subtotal 1,091.06

Add Interest or Other Credits

| Description | Amount |
|-------------|--------|
|             |        |
|             |        |

Total Credits 0

Adjusted Checkbook Register Balance \$ 1,091.06



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Why is it important to be aware of checking account fees and interest earned?

there is often a charge for this service. You must account for all checks, truncated or otherwise, to be sure they have cleared.

## OTHER FEES AND INTEREST EARNINGS

Fees and rules for checking accounts vary. Consumers should compare accounts and banks to find the best value for the type of account desired. *Credit unions* are nonprofit financial organizations, and members may be offered free checking accounts with no minimum deposit. Some banks offer free checking accounts to senior citizens and students.

Typical fees include monthly service fees or transaction fees. Monthly service fees range from \$5 to \$20 a month. Rather than a monthly service fee, some accounts charge a *transaction fee*, such as 20 cents for processing each check you write. Some accounts may allow ten checks at no charge and then have a set charge for each check after that. One-time fees may be charged for making wire transfers, having insufficient funds to cover a check, or allowing your bank balance to fall below the minimum specified for your account. The bank may also charge you for the printing of checks. You will see any bank fees that have been charged on your bank statement. These must be added to your checkbook register.

Some checking accounts do not have monthly service or transaction fees. For example, the monthly service fee may be waived if you keep a minimum required balance in your account. Some checking accounts pay interest on the money you keep in the account. You might choose to have an account that pays a lower interest rate on the deposited amount in order to have no monthly fee. When interest is deposited in your account, it must be entered in your checkbook register and added to your checkbook balance.

### CHECKPOINT ▶▶▶

What are some of the checking account fees that banks may charge?