

# Chapter

# 2

## OPENING A CHECKING ACCOUNT

- SKILL 1 **How to Compare Banking Services**
- SKILL 2 **How to Open a Checking Account**
- SKILL 3 **How to Keep Accurate Records**
- SKILL 4 **How to Write a Check**
- SKILL 5 **How to Deposit Money in a Checking Account**
- SKILL 6 **How to Endorse a Check**
- SKILL 7 **How to Interpret and Reconcile a Bank Statement**

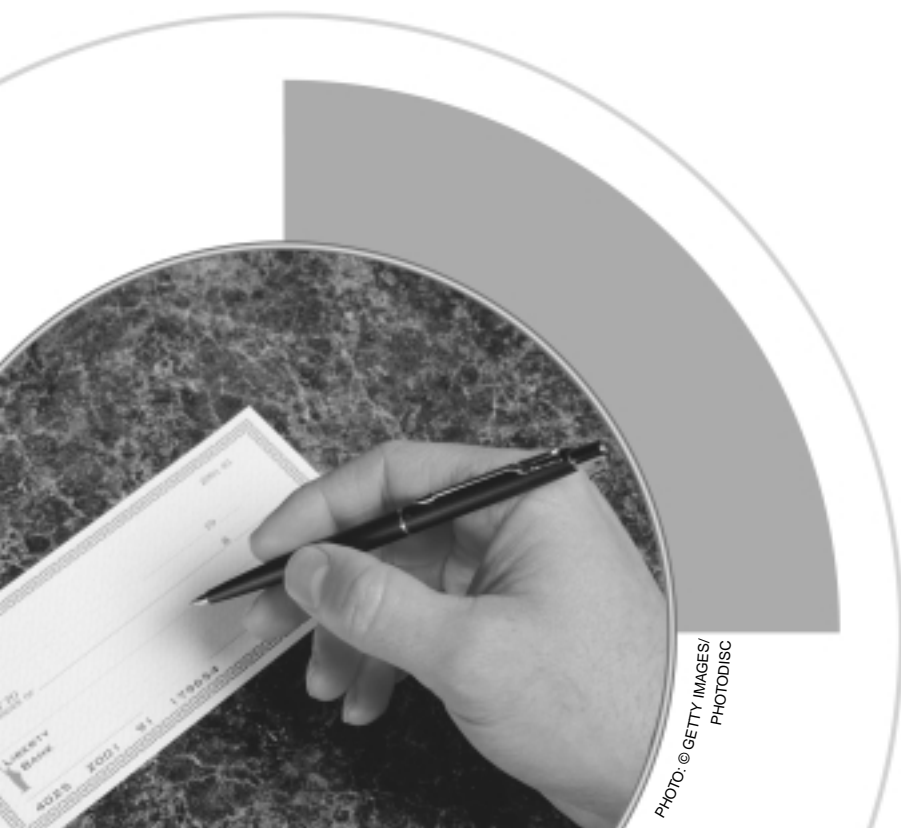


PHOTO: © GETTY IMAGES/  
PHOTODISC

Mark and Kim took a day to check out financial institutions and the services offered to customers. “For the sake of convenience, it’s a good idea to look at financial institutions located near your apartment or workplace,” said Kim. Since Mark didn’t have a clue where he would (or could) get an apartment, he decided to look at banks close to his present employer, Antwan’s Auto Parts.

## How to Compare Banking Services

Kim explained to Mark that the main types of financial institutions offering checking accounts are commercial banks, savings and loan associations, and credit unions. By far, commercial banks are the most popular banking institutions. Banks offer services such as checking accounts, savings accounts, small consumer loans, credit cards, safe-deposit boxes, and other consumer services.

In the past, savings and loan associations specialized in handling savings deposits and loaning money for the purchase of a home. However, in 1981 Congress authorized savings and loan associations to offer services that were previously provided only by commercial banks.

The credit union is another type of financial institution offering a broad range of services. Kim explained that a credit union wasn’t available to Mark at this point in his life. A credit union is a nonprofit organization that offers membership only to the members of a particular group, such as teachers in a school system, workers in a factory, or store employees. A credit union offers services similar to those from a savings and loan association.

Kim made one point very clear. Mark should make sure to open a checking account in an institution that is *insured*. The federal government offers insurance to financial institutions through an agency called the Federal Deposit Insurance Corporation (FDIC). The FDIC insures accounts in most commercial banks and in many savings and loan associations. The agency was established in 1933 to protect the money consumers deposit in a financial institution. At the present time, the maximum amount of insurance coverage is \$100,000 per depositor in any one institution.

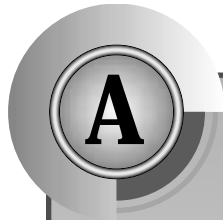
The Savings Association Insurance Fund (SAIF), an agency of the FDIC, insures deposits in savings and loan associations. SAIF is backed by the full faith and credit of the U.S. government. SAIF insures all the funds of a single depositor up to \$100,000, according to SAIF and FDIC rules. If a customer has three different individual accounts at one insured institution, all accounts are added together and the total amount is insured up to \$100,000.

The National Credit Union Administration (NCUA) protects customer accounts up to \$100,000 per depositor in federally chartered credit unions.



PHOTO: © GETTY IMAGES/PHOTODISC

“It’s important,” said Kim, “to look for the FDIC, SAIF, or NCUA symbols on the window, the entrance door, and the publications of the financial institution with which you’re interested in dealing. If you see the symbol, you know your money is insured.”



## Student Activity

1. In the past, what was the main difference between commercial banks and savings and loan associations? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. At the present time, can Mark open an account at a credit union? Give a reason for your answer. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. Identify the following:
  - a. FDIC \_\_\_\_\_
  - b. SAIF \_\_\_\_\_
  - c. NCUA \_\_\_\_\_

## How to Open a Checking Account

Mark checked out several institutions around Antwan’s Auto Parts, where he works, before deciding to open an account at National Bank. Ms. Keisha Reed, a bank officer there, had been very helpful. She pointed out several services that appealed to Mark.

### Initial Deposit

“If you agree, let’s open the account. You do have money with you?” Ms. Reed smiled.

Mark quickly got out his wallet and pulled out \$100, which left about \$50 in his pocket. “How much do I need?” he asked.

“That’s sufficient for an initial deposit,” said Ms. Reed. “Usually \$50 to \$100 is enough to open a checking account. You don’t want to put all your cash into the

account; yet you want enough in your account to cover the checks you plan to write. On the other hand, there are times when you'll want to pay cash instead of writing a check."

Mark explained that he gets his paycheck every Friday. He would deposit more on the following Friday.

## Signature Card

Ms. Reed pulled out a signature card and filled it out for Mark. A **signature card** is verification of the ownership of an account. It is signed by those who have the privilege of using the bank account. Some banking institutions will not permit a minor to sign the signature card unless it is signed jointly by a parent or guardian. Examine Mark's signature card in Figure 2-1 as Ms. Reed explains the items on the card.

ACCOUNT NUMBER <i>04452294</i>		TYPE OF ACCOUNT <input type="checkbox"/> JOINT <input type="checkbox"/> NOW <input checked="" type="checkbox"/> REGULAR <input checked="" type="checkbox"/> INDIVIDUAL <input type="checkbox"/> SUPER NOW <input type="checkbox"/> ECONOMY PLAN	
We, the undersigned, hereby open an account with National Bank, and do authorize, empower, and direct the said bank to open an account with us in the name set forth below, and we hereby agree and notify said Bank that each or either of us, or the survivor of either of us, the undersigned, may, at any and all times, endorse and deposit to the credit of said account any check, draft or other voucher payable to the order of each or either of us and draw and receive from said Bank the whole or any part of said money now deposited, or which may hereafter be deposited to the credit of said account. Checks, drafts, and other items drawn on this office of this bank not paid for any reason as of close of business day on which they have been deposited may be charged back to the customer. This bank will act only as the agent of the customer from which it receives such items, and will assume no responsibility or liability except for its own negligence, nor will it assume any responsibility or liability for any items lost in the mail.			
SIGNATURE <i>Mark L. Smith</i>			
SIGNATURE			
HOME ADDRESS <i>1040 Peachtree Atlanta GA 30319-1396</i>	HOME PHONE <i>555-1254</i>	BUSINESS PHONE <i>555-8763</i>	
EMPLOYER <i>Antwan's Auto Parts</i>	OCCUPATION <i>Salesperson</i>		
EMPLOYER'S ADDRESS <i>30317-6247 7890 Makeshift Drive Atlanta GA</i>	SOCIAL SEC. NO. <i>636-00-4854</i>	DATE <i>11/29/--</i>	
ACCEPTED BY <i>Keisha Mae Reed</i>			

Figure 2-1

Mark's Signature Card  
for a Checking Account

## Account Number

Ms. Reed asked Mark to notice the space for the account number. Mark's **account number** identifies his specific bank account. His account number is 04452294. The same number will be printed on the bottom of all Mark's checks. Ms. Reed said that Mark's checks will be contained in a checkbook and will be mailed to him as soon as the checks are printed.

Mark's account number will be printed after a bank number. The numbers at the bottom of his checks will look like this: 025000779:04452294. When he is asked for his account number, he'll give only the second set of numbers: 04452294.

# B

## Student Activity

Read the following paragraph that was copied from Mark's signature card (Figure 2-1). Answer true or false to the statements below.

We, the undersigned, hereby open an account with National Bank, and do authorize, empower, and direct the said bank to open an account with us in the name set forth below, and we hereby agree and notify said Bank that each or either of us, or the survivor of either of us, the undersigned, may, at any and all times, endorse and deposit to the credit of said account any check, draft or other voucher payable to the order of each or either of us and draw and receive from said Bank the whole or any part of said money now deposited, or which may hereafter be deposited to the credit of said account. Checks, drafts, and other items drawn on this office of this bank not paid for any reason as of close of business day on which they have been deposited may be charged back to the customer. This bank will act only as the agent of the customer from which it receives such items, and will assume no responsibility or liability except for its own negligence, nor will it assume any responsibility or liability for any items lost in the mail.

- \_\_1. If Mark opens an account with someone else, his co-signer can write a check on the account by simply signing his or her name to the check.
- \_\_2. The bank can charge Mark for checks he writes that exceed the amount he has in the bank.
- \_\_3. The bank agrees to sue a customer who owes Mark money.
- \_\_4. The bank assumes responsibility for checks Mark puts in the mail.
- \_\_5. The bank accepts responsibility for any errors the bank makes regarding Mark's account.

## Individual and Joint Accounts

Ms. Reed pointed out that Mark's signature card lists either an individual account or a joint account. She explained that an **individual account** has only one holder. If Mark opens an individual account, he is the only one who can make withdrawals from the account.

A **joint account** is held between two or more individuals and grants each person who signs the signature card all the rights and privileges attached to the account. Ms. Reed said she and her husband have a joint account, which means that each

of them can make withdrawals, without the other's knowledge or permission, at any time.

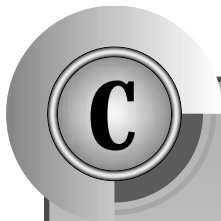
Ms. Reed said the names on her joint account are recorded as follows:

Keisha Mae Reed *or*  
Dontae C. Reed

She said that she or her husband may withdraw money or make deposits to the account without the signature of the other. However, if the names on a joint account are connected by the word *and*, both signatures are required for any withdrawals. For example:

Keisha Mae Reed *and*  
Dontae C. Reed

Ms. Reed said that the signature card usually lists the types of accounts available: regular, and various types of interest-bearing accounts. Mark wanted a regular account. Most interest-bearing accounts require a large balance to be kept in the account at all times. Mark can't afford to do this at the present time.



## Student Activity

1. Explain the difference between an individual account and a joint account. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. Explain the significance of recording signatures on a joint account as follows: Keisha Mae Reed *or* Dontae C. Reed  
\_\_\_\_\_  
Keisha Mae Reed *and* Dontae C. Reed  
\_\_\_\_\_
3. The numbers printed on the bottom of Mark's checks are: 025000779:04452294. What is his account number?  
\_\_\_\_\_
4. Can anyone open a checking account if he or she has enough money for an initial deposit? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Give a reason for your answer to Question 4. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# How to Keep Accurate Records

Ms. Reed explained that a **checkbook** contains checks that are used for making payments in place of cash. The National Bank will process each of Mark’s checks and subtract the amount from his checking account.

“You should keep an accurate record of how much money is in your account,” Ms. Reed said. “Accurate records are important because you are charged a fee if you have insufficient funds in your account to cover your withdrawal. Your checkbook can also be an effective way of keeping records of your expenditures for other reasons, such as budgeting.”

Ms. Reed showed Mark some samples of checkbooks. There was quite a variety. Some had illustrations or designs on the checks. “The more elaborate checks cost more,” Ms. Reed said.

Mark noticed that some checkbooks have check stubs for keeping records. The **check stub** is attached to each check. It is used for recording the balance of the account, the amount of each check written, to whom the check is written, deposits made to the account, the date, and any charges made by the bank. Figure 2-2 is an example of a check and check stub.

**Figure 2-2**  
Check Stub and Check

Ms. Reed showed Mark another type of checkbook that has a check register. She said the **check register** is a separate form that has space to keep track of the amount of each check, the check number, the balance, deposits to the account, date of the transaction, and description of the transaction. Mark chose to use the check register style. Figure 2-3 shows a blank page from Mark’s check register.

**Figure 2-3**  
Mark’s Check Register

NUMBER	DATE	DESCRIPTION OF TRANSACTION	AMOUNT OF PAYMENT		✓	AMOUNT OF DEPOSIT		BALANCE FORWARD	
		TO							
		FOR						Bal.	
		TO							
		FOR						Bal.	
		TO							
		FOR						Bal.	
		TO							
		FOR						Bal.	
		TO							
		FOR						Bal.	

Check registers vary in format, but they usually contain the same basic columns. Use the *Amount of Deposit* column to record any money added to the account. Use the *Amount of Payment* column to record any money deducted from the

account. You can use the ✓ column when you balance your bank statement, which will be discussed later in this chapter.

## Service Charges

Kim explained to Mark that there are service charges for having a checking account. A **service charge** is a fee charged by the financial institution for services provided to the customer. Kim told Mark to check out service charges when comparing financial institutions.

One common service charge is for returning canceled checks. **Canceled checks** are a customer's checks that the bank has processed and deducted from the customer's account. Ms. Reed said that National Bank, like many other banks, no longer returns canceled checks unless the customer asks for them. "This cuts down on the service charge," she said. "However, National Bank does mail a *copy* of all canceled checks with the bank statement each month."

Mark decided that he wanted a photocopy of his canceled checks so he could file the record in his Financial file in his new filing system. The filing system was beginning to make sense!

## Personalized Checks

Mark chose personalized checks with his name and address printed on them. He used his parents' home address since he didn't have a permanent residence yet. Kim had cautioned him not to put his home phone number on his checks, although some people do this. Kim said she didn't like to have that much personal information on her checks. "Never have your social security number printed on your checks," she added.

Ms. Reed gave Mark a few bank checks to use until his personalized checks arrived in the mail. She said he would find it easier to cash his personalized checks, and they provided better records because they were numbered. But she realized he might need a check before he received his own.

When Mark's personalized checks arrived in the mail, he noticed several identification numbers. One of Mark's blank checks is shown in Figure 2-4.

**Mark L. Smith** **101**  
1040 Peachtree Drive  
Atlanta, GA 30319-1396

\_\_\_\_\_ 20 \_\_\_\_\_ 15-77  
250

PAY TO THE  
ORDER OF \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ DOLLARS

*For Classroom Use Only*

**NATIONAL BANK**  
Atlanta, GA

FOR \_\_\_\_\_

⑆ 0 2 5 0 0 0 7 7 9 ⑆ 0 4 4 5 2 2 9 4 ⑆

Figure 2-4  
Mark's Check

On the right side of each check is a number that identifies the bank on which it is drawn. The American Bankers Association (ABA) assigns a number to each commercial bank in the country. On Figure 2-4 you can see this ABA number, 15-77/250, on the right side of the check. The numbers above the line indicate the city or state in which the bank is located and the bank's individual number. The number below the line is a Federal Reserve number, used in routing checks through the system.

The numbers at the bottom of the check identify the bank and Mark's account number. These numbers are printed with magnetic ink so the checks can be processed electronically. The check number (#101, #102, etc.) is located in the upper-right corner of the check.



## Student Activity

Write the word(s) that correctly completes each definition given below.

1. In one style of checkbook, a \_\_\_\_\_ is attached to each check and is used for recording the balance of the account, the amount of each check written, deposits made to the account, and any charges made by the bank.
2. A \_\_\_\_\_ is a separate form for recording the same information as listed in Question 1.
3. A \_\_\_\_\_ is a fee charged by the financial institution for services provided to the customer.
4. \_\_\_\_\_ are checks that the financial institution has processed and deducted from the customer's account.

## How to Write a Check

Mark wanted to write his first check to his father. Mark had borrowed \$20 from his father last week. He was pleased to be able to repay his father with a check. It was a small thing, maybe, but Mark felt in control of his life. He knew he had only begun. There was more to financial management than opening a checking account. But it was a start. He felt like an adult.

## Completing the Check Register

Mark remembered Ms. Reed cautioning him to fill out his check register either before or immediately after writing a check. The time taken to record the transaction would prevent him from forgetting to whom and for what amount he had written the check.

Mark did just that. He was careful to record the date, the number of the check, the name of the person being paid, a description of the transaction, the amount of payment, and the balance after deducting the amount of the check. The **balance** is the amount of money on deposit in the account at that time. Every time Mark writes a check, he must deduct the check amount from the previous balance in order to calculate the new balance. Mark had \$100 in his account before he wrote the \$20 check to his father.

## Writing the Check

Before writing his first check to his dad, Mark went over the following procedure with Kim:

1. Using a pen, write in the date. Include the month, day, and year.
2. After *Pay to the Order of*, write the name of the *payee* (the person or business being paid). There is no need to use titles, such as Ms., Mr., or Dr.
3. Write the amount of the check in numbers. Cents should be written as a fraction of 100. For example, write 33 cents as 33/100. If there are no cents, write 00/100. Begin the amount close to the dollar sign (\$). That way, no one can change the amount by adding another number just after the dollar sign.
4. Write the amount in words, except for the cents. Again, write the cents as a fraction. Start writing at the beginning of the amount line so there is no extra space before the written amount. Draw a wavy line after the written amount to the word *Dollars*. You do not want to leave room for someone to change the amount.
5. You can use the line marked *For* to make a note about the purpose of the check transaction. You don't have to fill in the purpose, but it helps when recording expenditures in your budget.
6. Sign your name in the same way it appears on your signature card.

Kim mentioned a few precautionary measures.

- Never write checks in pencil or with an erasable ink pen.
- If you make a mistake, write the word VOID across the check and the entry in the check register. (The word VOID means “not valid.”) Begin a new check. Don't try to correct your error on the original check.
- In general, do not write checks for *Cash*. If you lose the check, anyone can cash it. A check written for *Cash* is the same as cash money.



## Student Activity

Mark owes his father \$20. Now that he has the money, he wants to pay it back.

1. Remove the checkbook from your simulation envelope. Record in the check register the initial \$100.00 deposit Mark made to open his checking account on November 29, 20--.
2. Record the necessary information in the check register for Check 101 for \$20.00 to Mark's father, Michael Smith. The date is December 3, 20--. Write *Entertainment* as the description, since Mark used the money to go out with his friends. Calculate the new balance in Mark's checking account.
3. Write Check 101.
4. Tear out Check 101. Mark will be giving this check to his father, so file it in the Outgoing File envelope in your packet. Mark will receive this check with his bank statement at the end of the month.

Compare your check register and completed check with Mark's check register and check shown in Figures 2-5 and 2-6.

**Figure 2-5**  
Transactions Recorded in  
Mark's Check Register

NUMBER	DATE	DESCRIPTION OF TRANSACTION	AMOUNT OF PAYMENT		✓	AMOUNT OF DEPOSIT		BALANCE FORWARD	
	20-- 11/29	TO FOR <i>Initial cash deposit</i>				100	00	Bal.	100 00
101	12/3	TO <i>Michael Smith</i> FOR <i>Entertainment</i>	20	00				Bal.	80 00
		TO FOR						Bal.	
		TO FOR						Bal.	
		TO FOR						Bal.	
		TO FOR						Bal.	

**Mark L. Smith**  
 1040 Peachtree Drive  
 Atlanta, GA 30319-1396

101

December 3 20 -- 15-77  
250

PAY TO THE ORDER OF Michael Smith \$ 20.<sup>00</sup>/<sub>100</sub>

Twenty <sup>00</sup>/<sub>100</sub> \_\_\_\_\_ DOLLARS

*For Classroom Use Only*

**NATIONAL BANK**  
**Atlanta, GA**  
 FOR Entertainment Mark L. Smith

⑆ 0 2 5 0 0 0 7 7 9 ⑆ 0 4 4 5 2 2 9 4 ⑆

Figure 2-6  
Mark's Completed Check

## How to Deposit Money in a Checking Account

Mark plans to deposit \$240.01 of his paycheck every week in his checking account and keep \$85 in cash. When depositing money, you must fill out a deposit slip. A **deposit slip** is a form to be completed when you deposit money in your account. Personalized deposit slips are included in the back of checkbooks. They are preprinted with the customer's name, address, and account number. Mark learned that the bank had extra deposit slips if he forgot his checkbook, but he preferred his personalized slips. A copy of Mark's personalized deposit slip is shown in Figure 2-7.

**CHECKING ACCOUNT DEPOSIT SLIP**

**Mark L. Smith**  
 1040 Peachtree Drive  
 Atlanta, GA 30319-1396

DATE \_\_\_\_\_ 20 \_\_\_\_\_

**NATIONAL BANK**  
**Atlanta, GA**

⑆ 0 2 5 0 0 0 7 7 9 ⑆ 0 4 4 5 2 2 9 4 ⑆

		DOLLARS	CENTS	15-77 250
CASH	→			
C				USE OTHER SIDE FOR ADDITIONAL LISTING
H				
E				
C				
K				
S				
TOTAL FROM OTHER SIDE				
TOTAL				
LESS CASH RECEIVED				
NET DEPOSIT				

BE SURE EACH ITEM IS PROPERLY ENDORSED

Figure 2-7  
Mark's Deposit Slip

When you make a deposit, complete a deposit slip as follows:

1. Write the date, using the current month, day, and year.
2. Write the total value of any cash you're depositing. Cash includes bills and coins.

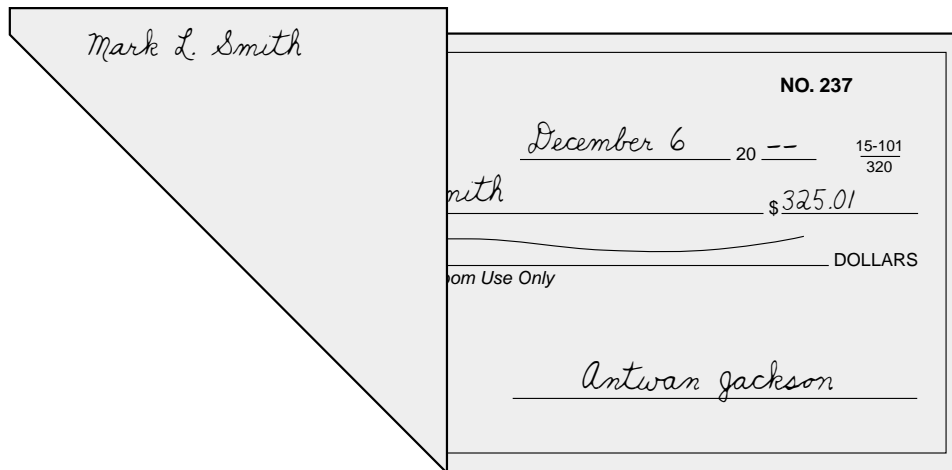
3. Write the bank's number (the number above the line on the right side of the check) and the amount of each check you're depositing. Use a separate line for each check. Usually, there are more lines on the back of the deposit slip if you need them.
4. Add the cash and check amounts to get the *Total*. If you are depositing only checks and want some cash back, write the amount you want in cash on the *Less Cash Received* line.
5. Deduct the *Cash Received* amount from the *Total* to get the *Net Deposit* amount. This is the amount that the bank will add to your checking account balance.
6. Enter the amount of the deposit in your check register and calculate your new balance.

When you make a deposit, you should always get a receipt. At Mark's bank, the bank teller stamps a duplicate copy of the deposit slip and returns it to the depositor. You should keep these receipts as proof of your deposits.

## How to Endorse a Check

When you cash or deposit a check made out to you, you must **endorse** the check. To endorse a check, sign your name on the back. An endorsement consisting of just a signature is called a **blank endorsement**. When Mark endorsed his payroll check, he used a blank endorsement, as shown in Figure 2-8.

**Figure 2-8**  
Mark's Blank  
Endorsement of His  
Payroll Check



Always sign your name at the top left end of the back of the check. Never endorse a check until you are ready to cash or deposit it. Some banks require you to add your account number below your endorsement. A blank endorsement is the most common form of endorsement.

Payroll checks come in the form of a voucher check. A **voucher check** is a check divided into two parts by a perforation. One part is your payroll check, which

you can cash or deposit just like a personal check. The other part is your voucher, or pay statement. The pay statement serves as a record of your pay and all deductions. (You will learn more about deductions from pay in Chapter 3.)



## Student Activity

Mark deposited his payroll checks and wrote more checks in December.

1. Remove Mark's payroll check (Form 2-1) from the Source Documents section of this *Instructions and Source Documents Booklet*. Cut along the dotted line to detach the pay statement from the check. Then file the pay statement in the Financial (green) file labeled *Income Records*. Endorse the check for Mark, using a blank endorsement.
2. On December 6, 20--, Mark wanted to deposit \$240.01 of his \$325.01 payroll check and receive \$85.00 in cash. Remove a deposit slip from the back of the checkbook and fill out the deposit slip for Mark. Enter the deposit in the check register in the front of Mark's checkbook and calculate the new balance for Mark's checking account. File Mark's paycheck and deposit slip in the Outgoing File.
3. On December 8, 20--, Mark bought a Christmas present for his parents. He found a toaster oven they wanted for \$29.99 at Lacy's Department Store. With tax, the bill came to \$31.78. Enter the transaction in Mark's check register and calculate the new balance. Write Check 102 to Lacy's for \$31.78. After *For*, write *Gift*. File the check in the Outgoing File.
4. Record the following additional December transactions for Mark. Write the checks, complete the deposit slips, record the transactions in the check register, calculate the new balance, and file the documents as directed in Items 2 and 3 above.
  - a. On December 10, Mark wrote Check 103 to Linens, Linens, Linens for \$39.57 for sheets for his new apartment.
  - b. On December 12, he wrote Check 104 to Service Merchandise for \$22.50 for dishes. (*Note*: This transaction completes the first page of the check register.)
  - c. On December 13, Mark received his payroll check (Form 2-2 in the back of this *Instructions and Source Documents*

**Continued**

# F

## Student Activity Continued

- Booklet*). As he did previously, he deposited \$240.01 of his \$325.01 payroll check and received \$85.00 in cash. Detach the pay statement and file it in the *Income Records* file. Endorse Mark's paycheck and prepare the checking account deposit slip.
- d. On December 14, he wrote Check 105 to HalMart for \$43.28 for clothes.
  - e. On December 19, Mark wrote Check 106 to Lacy's Department Store for \$45.75 for Christmas gifts for his sisters.
  - f. On December 20, Mark received his payroll check (Form 2-3 in the back of this *Instructions and Source Documents Booklet*). He deposited \$240.01 of the amount and received \$85.00 in cash. Detach the pay statement and file it in the *Income Records* file. Endorse Mark's paycheck and prepare the checking account deposit slip.
  - g. On December 27, Mark received his payroll check (Form 2-4 in the back of this *Instructions and Source Documents Booklet*). He deposited \$240.01 of it and received \$85.00 in cash.
  - h. On December 30, Mark wrote Check 107 to Service Merchandise for \$59.10 for small appliances for his apartment.
  - i. On December 31, he wrote Check 108 to Fay's Drugstore for \$15.21 for personal items. This transaction completes the second page of the check register. Record the ending balance in the Balance Forward block on the next page.

## How to Interpret and Reconcile a Bank Statement

Just as Ms. Reed promised, Mark received his bank statement at the end of December. The **bank statement** is a record of all deposits, withdrawals, and service charges for your checking account since the last statement. It is also a record of your balance (cash on deposit in your account) at the time the statement was prepared. Mark's bank statement, dated December 26, is shown in Figure 2-9.

Figure 2-9  
Mark's Bank Statement

BALANCE LAST STATEMENT		TOTAL AMOUNT WITHDRAWALS	NO. OF WITHDRAWALS	NO. OF DEPOSITS	TOTAL AMOUNT DEPOSITS	SERVICE CHARGE	BALANCE THIS STATEMENT
0.00		202.88	6	4	820.03	4.00	613.15

CHECK	AMOUNT	DEPOSITS	DATE	BALANCE
		100.00	11/29	100.00
101	20.00		12/05	80.00
		240.01	12/06	320.01
102	31.78		12/10	288.23
103	39.57		12/12	248.66
		240.01	12/13	488.67
104	22.50		12/16	466.17
105	43.28		12/17	422.89
		240.01	12/20	662.90
106	45.75		12/23	617.15
	4.00 SC		12/26	613.15

SC – SERVICE CHARGE CC – CHECK CHARGE	MC – MISCELLANEOUS CHARGE RT – RETURNED CHECK	ATD – AUTOMATED TELLER DEPOSIT ATW – AUTOMATED TELLER WITHDRAWAL
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## Interpreting a Bank Statement

Notice that Mark's bank statement lists the checks by number and amount. His bank statement also shows the deposits made and the service charge for the month. The date column on the bank statement indicates when the bank paid the checks, recorded the deposits, and added any service charges.

Mark examined his check register to see if his checkbook balance agreed with the bank statement balance. He also wanted to make sure that all his deposits had been added to his account and all the checks he had written had been processed. Checks written but not yet processed by the bank are called **outstanding checks**.

Mark determined which checks were outstanding by comparing the canceled checks (returned with the bank statement) with his check register. He placed a

checkmark in the ✓ column of the check register next to each check that the bank had processed. Any checks not checked off were outstanding.

Mark also placed a checkmark in the ✓ column of the check register next to each deposit that appeared on the bank statement. Any deposits not checked off were probably made after the date of the bank statement.

Figure 2-10 shows the check register completed by Mark. When he compared his check register with his bank statement (Figure 2-9), the two did not agree.

**Figure 2-10**  
Check Register  
Completed by Mark

NUMBER	DATE	DESCRIPTION OF TRANSACTION	AMOUNT OF PAYMENT		✓	AMOUNT OF DEPOSIT		BALANCE FORWARD	
	20-- 11/29	TO FOR Initial cash deposit			✓	100	00	Bal.	100 00
101	12/3	TO Michael Smith FOR Entertainment	20	00	✓				20 00
								Bal.	80 00
	12/6	TO FOR Deposit paycheck			✓	240	01		240 01
								Bal.	320 01
102	12/8	TO Lacy's Depart. Store FOR Parents' Christmas gift	31	78	✓				31 78
								Bal.	288 23
103	12/10	TO Linens, Linens, Linens FOR Sheets for apartment	39	57	✓				39 57
								Bal.	248 66
104	12/12	TO Service Merchandise FOR Dishes for apartment	22	50	✓				22 50
								Bal.	226 16

	12/13	TO FOR Deposit paycheck			✓	240	01		240 01
								Bal.	466 17
105	12/14	TO WalMart FOR Clothes	43	28	✓				43 28
								Bal.	422 89
	12/27	TO FOR Deposit paycheck				240	01		240 01
								Bal.	662 90
107	12/30	TO Service Merchandise FOR Appliances for apt.	59	10					59 10
								Bal.	603 80
108	12/31	TO Faj's Drugstore FOR Personal items	15	21					15 21
								Bal.	588 59
		TO							
		FOR						Bal.	
		TO							
		FOR						Bal.	



## Student Activity

Determine why Mark's check register balance does not agree with his bank statement balance. Answer the following questions.

1. Has Mark forgotten to record any checks in his check register?  
If so, what check number and amount? \_\_\_\_\_
2. What is the amount of the bank service charge that Mark has not yet deducted? \$ \_\_\_\_\_
3. According to the records, are there any outstanding checks?  
If so, what check numbers and amounts? \_\_\_\_\_  
\_\_\_\_\_
4. Has Mark forgotten to record any deposits in his check register? \_\_\_\_\_  
If so, what date and amount? \_\_\_\_\_
5. Were there any deposits that do not appear on the bank statement? \_\_\_\_\_  
If so, what date and amount? \_\_\_\_\_
6. What is the balance shown on the bank statement? \_\_\_\_\_
7. What is the balance shown in Mark's check register? \_\_\_\_\_

## Reconciling a Bank Statement

Once Mark discovered that his checkbook balance did not match the balance on the bank statement, he completed the reconciliation statement form on the back of his bank statement. Figure 2-11 is a copy of Mark's completed reconciliation statement. (The word "reconcile" means "to settle.")

After Mark completed the reconciliation statement, he corrected his check register. He recorded the check and deposit he had forgotten to enter. Then he entered the service charge and calculated the new balance. He recorded these corrections as shown in Figure 2-12.

When Mark told Kim about his first errors in his check register, Kim said she had a story of her own. When she first opened a checking account, she felt so independent. She wrote several checks that same day.

"Somehow I got the strange notion that I had as much money in the bank as I had checks. It looked simple. Need money—write a check," she laughed.

It wasn't long before Kim received an overdraft notice from her bank. Writing checks for more money than you have on deposit is called **overdrafting** or **overdrawing**. She was \$85 overdrawn on her account, which meant she had written checks for \$85 more than she had in her account. The bank charged her \$25 for every check that "bounced."

If you do not keep an accurate record of each check, deposit, and service charge, you can easily overdraw your account. Both the financial institution and the business to which you write the check will probably charge you a large fee for a check not covered by sufficient funds. In fact, **Insufficient Funds (ISF)** is the bank's name for a "rubber" check.

Figure 2-11

Mark's Reconciliation Statement

YOU CAN EASILY BALANCE YOUR CHECKBOOK BY FOLLOWING THIS PROCEDURE			
FILL IN THE FOLLOWING AMOUNTS FROM YOUR CHECKBOOK AND BANK STATEMENT.			
BALANCE SHOWN ON BANK STATEMENT	\$ 613.15	BALANCE SHOWN IN YOUR CHECKBOOK	\$ 588.59
ADD DEPOSITS NOT ON STATEMENT	\$ 240.01	ADD ANY DEPOSITS NOT ALREADY ENTERED IN CHECKBOOK	\$ 240.01
TOTAL	\$ 853.16	TOTAL	\$ 828.60
SUBTRACT CHECKS ISSUED BUT NOT ON STATEMENT			
NO.	AMOUNT		
107	\$ 59.10		
108	15.21		
		SUBTRACT CHECKS, SERVICE CHARGES AND OTHER BANK CHARGES NOT IN CHECKBOOK	
		ITEM	AMOUNT
		Chk 106	\$ 45.75
		SC	4.00
TOTAL	\$ 74.31	TOTAL	\$ 49.75
BALANCE	\$ 778.85	BALANCE	\$ 778.85
THESE TOTALS REPRESENT THE CORRECT AMOUNT OF MONEY YOU HAVE IN THE BANK AND SHOULD AGREE. DIFFERENCES, IF ANY, SHOULD BE REPORTED TO THE BANK WITHIN TEN DAYS AFTER THE RECEIPT OF YOUR STATEMENT.			

	12/27	TO	Deposit paycheck			240	01	Bal.	662	90	
		FOR							59	10	
107	12/30	TO	Service Merchandise	59	10			Bal.	603	80	
		FOR	Appliances for apt.						15	21	
108	12/31	TO	Fay's Drugstore	15	21			Bal.	588	59	
		FOR	Personal items						45	75	
106	12/19	TO	Lacy's Depart. Store	45	75	✓		Bal.	542	84	
		FOR	Sisters' Christmas gifts						240	01	
	12/20	TO				✓	240	01	Bal.	782	85
		FOR	Deposit paycheck								

NUMBER	DATE	DESCRIPTION OF TRANSACTION	AMOUNT OF PAYMENT	✓	AMOUNT OF DEPOSIT	BALANCE FORWARD
						782 85
	12/31	TO				4 00
		FOR	Service charge	4 00	✓	Bal. 778 85
		TO				
		FOR				Bal.

Figure 2-12

Mark's Corrected Check Register

## H Student Activity

- Fill in the blanks with the correct term(s).
  - A(n) \_\_\_\_\_ occurs when the amount withdrawn from an account exceeds the account balance.
  - \_\_\_\_\_ means to sign your payment name on the back of a check.
  - \_\_\_\_\_ are checks written but not yet processed by the bank.
  - A(n) \_\_\_\_\_ is the bank's record of all deposits, withdrawals, and service charges for your checking account.
  - A(n) \_\_\_\_\_ is a form used for depositing money in a checking account.
  - A(n) \_\_\_\_\_ is a form that helps customers balance their checkbook record with their bank statement.
- Remove the canceled checks (Form 2-5) from the back of this *Instructions and Source Documents Booklet*. Compare the canceled checks with the check register you prepared for Mark. Place a checkmark in the ✓ column next to each check that has been processed and returned. Any checks without a checkmark are outstanding. File Mark's copy of his canceled checks in the Financial file *Checking Account—Canceled Check Records*.
- Compare your check register with the bank statement in Figure 2-9. Place a checkmark in the ✓ column next to each deposit the bank added to Mark's account.
- Record the service charge in the check register and calculate the new balance. Your checkbook balance at the end of December should be \$778.85.



1. Contact (or visit) two financial institutions in your community to find out about the kinds of checking account services offered and the cost of these services. Prepare a comparative chart of the services offered by each financial institution.
  2. As you gather information from financial institutions on checking accounts, file it in the Financial (green) file labeled *Checking Account*.
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## Check Up

Having completed the Student Activities in this chapter, you should have mastered the skills listed below. Put a checkmark next to the skills you have mastered. If you aren't sure of a skill, review that section of the chapter.

- How to compare banking services
- How to open a checking account
- How to keep accurate checking account records
- How to write a check
- How to deposit money in a checking account
- How to endorse a check
- How to interpret and reconcile a bank statement

Now that you have mastered the skills listed above, move on to Chapter 3, *Setting Up a Budget*.