

How can a checking account help me to manage my money?

# Chapter 25

## Checking Accounts

### Key Terms

*check*  
*debit card*  
*overdraw*  
*deposit slip*  
*endorse*  
*bank statement*  
*certified check*  
*cashier's check*  
*money order*  
*traveler's check*

### Chapter Objectives

After studying this chapter, you will be able to

- **demonstrate** how to write checks and use debit cards.
- **list** factors to consider when selecting a financial institution.
- **explain** how to open a checking account and make a deposit.
- **show** how to record transactions and balance a checkbook.
- **describe** four special types of checks.

### Key Concepts

- With a checking account, you can pay bills and make purchases by writing checks or using a debit card.
- Recording all transactions in a check register prevents the costly mistake of overdrawing.
- Special types of checks are often used for making expensive purchases, sending money in the mail, and carrying money when traveling.

# The Convenience of Checking

A checking account is a safe place to keep your money. A checking account is also a money management tool that helps you keep a record of your expenses. Money that you earn, such as an allowance or a paycheck, is deposited into the checking account. Deposited funds can be used to pay bills or make purchases with a check or debit card.

## Checks

A **check** is a written order to pay someone. It instructs a bank to take money from the checking account of the person writing the check. The amount specified on the check is paid to the party named on the check. See 25-1. Checks should be written in ink. This will prevent others from trying to use it by changing the amount or name on the check. The bank will return checks unpaid when information has been erased, crossed out, or changed in any way.

### check

A written order instructing a bank to take a specified amount of money out of the account on which the check is drawn and give it to the person whose name appears on the check.

**25-1** Checks allow people to transfer money without handling cash.

The image shows a sample check with the following details:
 

- Name and address:** JAMES C. MORRISON, 1765 SHERIDAN DRIVE, YOUR CITY, STATE 12345
- Account open date:** 06/09
- Pay to the order of:** The Strand Theatre
- Date:** September 15, 20 XX
- Check number:** No. 101
- Amount:** \$ 20.00 (Twenty and 00/100 DOLLARS)
- Routing Number:** 23 5678 1234
- Signature:** James C. Morrison
- Memo:** tickets
- Account number:** 123456789
- Routing number:** 123456789

 The check also features a MICR line at the bottom: ⑆ 123456789 ⑆ 123456 101. A large 'SAMPLE VOID' watermark is visible across the center of the check.

**Name and address**  
Identifies person(s) authorized to write checks on this account.

**Account open date**  
The date you opened your checking account.

**Pay to the order of**  
Write in the name of the party (person, company, organization) that is to receive the money.

**Date**  
Month, day, and year check is written.

**Check number**  
Numbers are preprinted in sequence when checks are ordered.

**Routing Number**  
A fractional version of the routing number.

**Amount in words**  
Beginning at the far left, write in the amount. Use a line to fill in the leftover space.

**Memo**  
For your personal records, write in what the check was written for.

**Signature**  
Your signature should match the one on your signature card.

**Amount in numbers**  
Write the amount close to the dollar sign. The amount written in words must match.

**Account number**  
Your checking account number.

**Routing number**  
A 9-digit routing number specific to your bank.

If a check is lost or stolen, you can stop payment on it. To stop payment on a check, you should contact your bank and fill out a form. You will need to pay a fee, which may be \$25 or more.

You can pay your bills through the mail by check. Never send cash through the mail. If cash is lost or stolen, the money is gone.

## ATM Cards

ATM cards are used at *automated teller machines* (ATMs) to withdraw cash from your checking account. You will need to enter a security code called a *PIN* (personal identification number) when using an ATM card. A service fee may be charged if you use an ATM card at a machine that is not operated by your bank.

## Debit Cards

### debit card

A card used to immediately deduct a purchase amount or cash withdrawal from a checking account.

**Debit cards**, also called *check cards*, combine the functions of checks and ATM cards. Debit cards can be used to make purchases, pay bills, and withdraw cash from ATMs—all without writing a check. The funds are immediately withdrawn from the account. Debit cards bear the logo of a credit card company, such as Visa or MasterCard. Usually, you will need to enter a PIN when using a debit card in stores or at ATMs. Chart 25-2 lists guidelines for using a debit card safely.

Debit cards offer a great deal of convenience. However, these cards also make it easy for some people to overspend. You

### 25-2

Following these tips will help you use your ATM or debit card wisely.

#### Security Tips for ATM and Debit Cards

- When selecting a PIN, avoid using numbers such as your birthday, social security number, or home address.
- Memorize your PIN. Do not carry your PIN in your wallet or write it on your card.
- Keep a written record of your account number and expiration date, and the telephone number of the card issuer. File the record in a safe place.
- Review ATM or debit card transactions carefully before entering your PIN or signing a receipt. Upon approval, funds are immediately withdrawn from your account.
- Report a lost or stolen card immediately.

must have enough money in your account to cover all checks, debit card purchases, and cash withdrawals. If you **overdraw** your account, you spend more than is in your account. When you overdraw, your check will *bounce*. You will be charged a high fee for each bounced check and overdrawn debit or ATM card transaction. Avoid overdrawing your account by recording every check and debit or ATM card transaction.

## Where to Open an Account

The first step in opening a checking account is to select a financial institution. *Commercial banks* offer a full range of services to both individuals and corporations. *Savings banks* also offer a variety of services to individuals. *Credit unions* offer services to certain groups of people, such as employee groups.

When choosing a financial institution, consider the following factors:

- convenience
- services
- types of accounts
- fees

Shopping for a financial institution is much like shopping for a car. You would want to compare the features of several before making a choice.

## Convenience

A convenient financial institution is one that is near your home or workplace. This would allow you to bank on your lunch hour or on your way to or from work. If the institution has branch offices, it provides even more convenience. You can deposit or withdraw money at any branch office. Therefore, you might find it convenient to have a branch where you shop or spend leisure time. To avoid ATM service charges, choose a financial institution with bank-operated ATMs near where you work, live, and shop. See 25-3.

Another aspect of convenience is its hours. It should be open at times when you can get there. It may have early, late, or extended weekend hours.

### overdraw

To spend more money than what is in the account.



## Your Reading

What happens if you overdraw your account?

**25-3**

An automated teller machine is one of the many services offered by most financial institutions.



## Making a Difference

Invite a representative from a local banking institution to class to discuss procedures for first-time checking account customers. Have the guest discuss helpful hints for managing your first checking account. Find out what population groups in the area tend to avoid checking accounts, but could benefit from using them. Ask the guest what services are available to make checking accounts more accessible to different population groups.

## Services

Financial institutions offer a variety of checking and savings accounts as well as other services. If certain services are important to you, find out which institutions offer them. Compare services before making your choice. Service might include the following:

- automated teller machines (ATMs)
- drive-up banking
- online banking
- debit cards
- overdraft protection
- credit card services
- safe-deposit boxes
- certified checks
- money orders
- cashier's checks
- traveler's checks
- loans

## Types of Accounts

As a single person, you will probably open an *individual account*. Only your signature can be used to authorize a check. You may also open a *joint account* with another person, which permits either of the owners to sign a check. Both owners may have separate debit cards that withdraw funds from the shared account.

Some checking accounts pay interest. An *interest-paying account* works much like a savings account. Interest is paid according to how much money is in the account.

## Fees

A checking account usually costs money, but fees differ among financial institutions. Some charge a fee for each check you write. Others offer free checking if you keep a savings account there. Others provide free checking if you maintain a minimum balance in either your checking or savings account.

You usually pay a fee to order checks. That fee varies depending on the design you choose. When ordering, people may have checks mailed to their bank instead of their home to protect against theft.

Consider all the various fees when choosing a bank. Fees vary among banks. Check large and small banks to determine the right one for your needs.

## Opening a Checking Account

Once you select a financial institution, you are ready to open your checking account. The process is an easy one. Ask to see the person in charge of new accounts. That person will have you fill out an application form. This form includes spaces for your name, address, telephone number, and if you work, your business address.

You will be asked to sign a *signature card*, which will be used to check the signatures on your checks. See 25-4. This helps prevent the crime of *forgery*. Falsely imitating someone else's signature on a check is forgery. You will also be asked to show some identification, such as a driver's license or passport. Remember to bring your social security number. Banks must have your social security number on file for tax purposes.



### Your Reading

Which banking services are important to you?

**25-4**

This is a combined application form and signature card for opening a checking account. Some institutions use two separate forms.

Checking Account Application			
OUR TOWN BANK <small>ANY ONE AUTHORIZED SIGNATURE WILL BE SUFFICIENT FOR EACH WITHDRAWAL, CHECK OR OTHER ORDER.</small>		ACCOUNT NUMBER	
T I T L E			
<small>THIS ACCOUNT WILL BE SUBJECT TO THE RULES AND REGULATIONS OF THE BANK, ALL LAWS, REGULATIONS AND RULES OF THE UNITED STATES, AND OF THE STATE OF NEW JERSEY, AND ALL CHANGES IN THOSE RULES, REGULATIONS, AND LAWS THAT MAY IN THE FUTURE BECOME EFFECTIVE. I FURTHER AGREE BY MY SIGNATURE BELOW THAT I HAVE RECEIVED A COPY OF--</small>			
<input type="checkbox"/> BASIC CHECKING AGREEMENT		<input type="checkbox"/> NOW ACCOUNT AGREEMENT	
<input type="checkbox"/> SAVINGS AGREEMENT		<input type="checkbox"/> STATEMENT SAVINGS AGREEMENT	
<input type="checkbox"/> TIME DEPOSIT OPEN ACCOUNT AGREEMENT		<input type="checkbox"/> TRUST ACCOUNT SUPPLEMENTAL AGREEMENT	
<input type="checkbox"/> JOINT ACCOUNT SUPPLEMENTAL AGREEMENT			
DEPOSITOR'S SIGNATURE		DEPOSITOR'S SIGNATURE	
T Y P E	<input type="checkbox"/> NOW <input type="checkbox"/> CHECKING <input type="checkbox"/> SAVINGS		
SPECIFY TYPE OF ACCOUNT			
----- FOLD -----			
ADDRESS			
WRITE			
ZIP CODE			
AFTER			
STATE			
SOCIAL SECURITY NO.		BIRTH DATE	
HOME PHONE NO.		BUSINESS PHONE NO.	
EMPLOYER		EMPLOYER	
JOB TITLE		JOB TITLE	
DATE OPENED		DATE CLOSED	
IDENTIFICATION SOURCE		BRANCH NO.	
		RELATED ACCOUNT NUMBERS	
		OFFICER NO.	
		OPENED BY:	
SIGNATURE CARD			

## Making a Deposit

### deposit slip

A form filled out before depositing money into a bank account.

You must put money into your checking account before you can write checks. The teller will ask you to complete a deposit slip. Use the *deposit slip* to record how much money you are going to put into your checking account. Space is provided for you to list cash and/or checks.

Give the completed deposit slip and your money to a teller. The teller will record your deposit and give you a receipt. You will be given temporary checks and deposit slips to use. Later, you will receive your own personalized checks and deposit slips in the mail. See 25-5.

### Writing a Deposit Slip

Write the date you deposit the money.

List all coins.

List all currency (bills).

List all checks separately.

Sign the slip if you are receiving cash back.

Total your bills, coins, and checks.

Write amount of cash you wish to keep out of the deposit.

Subtract amount of cash received and write in net deposit.

**DEPOSIT**

JAMES C. MORRISON  
1765 SHERIDAN DRIVE  
YOUR CITY, STATE 12345

DATE August 10

James C. Morrison  
SIGN HERE ON Y. IF CASH RECEIVED FROM DEPOSIT

FINANCIAL INSTITUTION  
YOUR CITY, U.S.A. 12345

CURRENCY	
COIN	
LIST CHECKS SEPARATELY	
	123 56
	20 00
TOTAL FROM OTHERS & C/S	
SUB-TOTAL	146 56
LESS CASH RECEIVED	50 00
TOTAL DEPOSIT	93 56

**DEPOSIT TICKET**  
PLEASE ITEMIZE ADDITIONAL CHECKS ON REVERSE SIDE

⑆ 23456789⑆ ⑆ 234 567⑆

### 25-5

Personalized deposit slips come with checks to make it easy to add money to a checking account.

You can deposit money electronically. You can transfer money from your other existing accounts or between accounts. If you transfer money electronically, you will not have a deposit slip. It is important that you keep accurate records if you wish to use this method.

### Endorsing a Check

When depositing a check made out to you into your account, you must first endorse it. To **endorse** a check, you sign your name on the back of its left edge. Your signature must go in the area provided. Many checks will indicate “do not write, stamp, or sign below this line.” Sign your name exactly as it is written on the front of the check. See 25-6.

### endorse

To sign the back of a check in order to deposit or cash the amount specified.

Do not write, stamp, or sign below this line.

Endorse here

Maria Ruiz

No. 101

August 15, 20 XX 23-5678 1234

\$ 20.00

00

100 DOLLARS

James C. Morrison

⑆ 23456 101

### 25-6

A check endorsement must be written on the back of the left edge of the check within the space provided.





the information is automatically recorded as a “carbon” copy of the check written.

You should always know how much money is in your account. That way you can avoid overdrawing your account.

## Online Banking

Most banks offer online access to your checking account. You will need to register a user name and password with your bank to access the online account. Online banking allows you to pay bills using your computer. You can also transfer funds between accounts. In addition, you can view your account statement and monitor transactions.

Bills can automatically be paid at the end of a billing cycle with an automatic debit to your account. This is just like writing a check. Automatic payment is usually applied to a bill that occurs every month for the same amount. For example, it can be used to pay your automobile insurance monthly or quarterly. If you use an automatic payment method, be sure your account balance will cover the payment. Also, deduct the amount from your account when the payment comes due.

Using this form of payment requires careful bookkeeping on your part. If you don't make proper deductions on time, your account won't balance. You may cause an overdraft. Checking your online statement regularly can help you keep up-to-date records.

## Balancing Your Checkbook

You should receive a monthly or quarterly statement from the bank. The **bank statement** lists all your deposits, cash withdrawals, check withdrawals, electronic transactions, service charges, and interest payments. It also lists your beginning and ending balances. See 25-8. You may receive your bank statement in the mail or access it through online banking.

Instructions for balancing your checkbook are given on the back of most bank statements. Balancing your checkbook is also called *reconciling* your account. When you review your statement, check off the processed checks and electronic transactions in your checkbook register. It is up to you to make sure your checkbook balance agrees with the bank statement.



### Your Reading

Why is it important to record every transaction?

#### **bank statement**

A balance sheet listing deposits, withdrawals, service charges, and interest payments on an account with a financial institution.

**25-8**

A bank statement provides a periodic summary of checking account activity.



## Community Connections

Interview three adults in the community who have checking accounts to find answers to the following questions: Do you immediately record each written check or cash withdrawal? Do you always keep your check register up-to-date so you know your current account balance? Do you routinely check the bank's monthly statement against your record for any discrepancies? Do you never, sometimes, or frequently overdraw your account? Keep the identity of the adults confidential as you report your findings to the class.



**Statement for**  
James C. Morrison  
1765 Sheridan Drive  
Your City, State 12345

**This statement covers**  
5/01/XX through 5/31/XX

Checking Account 123456	<b>Previous Statement Balance On</b> 4/30/XX	169.23
	<b>Total of 1 Deposits For</b>	173.32+
	<b>Total of 5 Withdrawals For</b>	125.10-
	<b>Total Interest Earned</b>	.99+
	<b>Total Service Charges</b>	0
<b>New Balance</b>		218.44

Checks and Other Debits	Check	Date Paid	Amount
	164	5/10	25.00
	165	5/20	33.17
	166	5/28	20.28
	Debit Card Withdrawal #00967 Turning Heads Salon	5/12	23.00
	Automatic Payment Withdrawal #02653 Commonwealth Electric	5/21	23.65
Deposits and Other Credits		Date Posted	Amount
	Direct Deposit from #09876 on 5/18	5/18	173.32
	Interest	5/31	.99

**Thank you for banking with your Financial Institution**

Some retailers and credit card companies process checks as electronic payments, called *electronic check conversion*. Even though you wrote a check, the payment is deducted from your checking account as if you used a debit card. These transactions appear on your statement as electronic payments.

Also check off all the deposits listed on your statement. Add any interest shown on your statement to the balance in your checkbook. Subtract any service charges from your checkbook balance.

As you go over your statement, you may notice that several of your checks have not cleared your bank. Checks clear the bank at different times. People and companies often hold checks for a while before cashing them. Checks that have not cleared are called *outstanding checks*. When balancing your checkbook, list outstanding checks and subtract them



The use of these checks is explained in the following sections.

## Certified Checks

### certified check

A check for which a bank guarantees payment.

Sellers of very expensive items often require payment by certified check. A **certified check** is one for which the bank guarantees payment. The bank withdraws the requested amount from your checking account. The bank teller stamps your check “certified.” A bank official signs the check, guaranteeing the bank has set aside your money for payment. A small fee is charged for this service. See 25-10.

## Cashier's Checks

### cashier's check

A check drawn on a bank's own funds and signed by an officer of the bank.

A **cashier's check** is drawn by a bank on its own funds. A cashier's check may also be referred to as a bank check. A bank officer, usually the cashier, signs it. People who don't know you may feel safer accepting a cashier's check than a personal check.

You don't need a checking account to get a cashier's check. You can go to any bank and buy a cashier's check. You pay the amount of the check plus a service fee. Some banks will waive the fee if you have an account with the bank. A bank representative will help you fill out the check.

### 25-10

Certified checks are often used for expensive items, such as paying for closing costs when buying a home.



## Money Orders

A **money order** is an order to pay a certain amount of money to a certain party. As with checks, money orders can be used to pay bills safely by mail. You don't need a checking account to get money orders.

You can purchase money orders from several places:

- financial institutions
- U.S. post offices
- American Express agencies
- Railway Express agencies
- Western Union offices

To buy a money order, you pay the amount of the money order plus a service fee. The agent prepares the money order and fills in the amount. You fill in the name of the person or company to be paid. If you have a checking account, you normally don't need this service.

## Traveler's Checks

**Traveler's checks** are checks purchased in common denominations that are replaceable if lost or stolen. You can buy traveler's checks from banks and credit card companies. You do not need an account at the institution to buy traveler's checks.

There may be a service fee for buying traveler's checks. Organizations like the American Automobile Association (AAA) offer their members no-fee traveler's checks. Traveler's checks can be issued in foreign denominations and easily cashed.

You will be required to sign your name on each traveler's check at the time of purchase. Later, when you cash the checks, you will have to sign them a second time. The person receiving a check compares the second signature with the first one. If the signatures match, the person knows the check is really yours. You may find fewer businesses willing to accept traveler's checks.



## Community Connections

Work with a group of your classmates to draw a simplified map of the business district in the community, marking the main business streets in all directions. From memory, have students plot and label the banks or financial institutions and ATMs in the area. Ask students to walk or drive around that area within the next week to check the accuracy of their map.

### money order

Used like a check, this is an order purchased for a specific amount to be paid to a certain party.

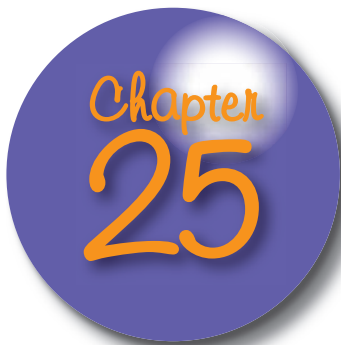
### traveler's checks

Checks purchased in common denominations that are replaceable if lost or stolen.



## Your Reading

When would you use a certified check?

A circular graphic with a purple background and a white glow effect. The word "Chapter" is written in a light blue, sans-serif font at the top. Below it, the number "25" is written in a large, bold, orange font with a slight shadow effect.

## Summary

A checking account provides both convenience and safety. Before you open a checking account, shop for the best financial institution for you. Compare the features of several before you make your choice.

Once you have a checking account, use it responsibly. If you have an ATM or debit card, know your PIN number and keep track of all transactions. Learn the correct way to fill out deposit slips, endorse checks, and write checks. Know how to use check stubs or a check register. Access your online banking account, if available, to monitor transactions and make electronic payments. Understand how to balance a checkbook. Then be sure you put your knowledge to good use. A checking account can be a helpful money management tool. However, if you misuse and overdraw it often, you will have problems.

At times, you may want to use certified checks, cashier's checks, money orders, or traveler's checks. All these services are for your convenience. Become familiar with them now so you will know how to use them when you choose to do so.

## Reviewing Key Concepts

1. Name two advantages of having a checking account.
2. Why should a check be written in ink?
3. What is the difference between a debit card and an ATM card?
4. What four factors should be considered when choosing a financial institution?
5. When you open a checking account, why are you asked to sign a signature card?
6. What form do you fill out when you want to put money into an existing checking account?
7. What is the purpose of using check stubs or a check register?
8. What items should be recorded in a check register?
9. You need a checking account to write a \_\_\_\_\_.
  - A. certified check
  - B. cashier's check
  - C. money order
  - D. traveler's check
10. What is the primary reason for buying traveler's checks?

### Building Academic Skills

1. **Math.** Your bank statement last month showed you had a balance of \$1,723.34. You had three checks outstanding, totaling \$67.89. This month you deposited \$487.53. You wrote checks totaling \$134.80. Your bank charges were \$4.50. What is the total in your bank account?
2. **Writing, speaking.** Working with a group of classmates, write a short skit that advertises the use of traveler's checks. Include information about where to buy them, how to use them, and their advantages over other forms of money. Perform your skit for the class.
3. **History.** Analyze how money transactions were handled before the use of credit cards and checking accounts. Did something equivalent to "time payments" exist? Where did the average person store money? Besides coins and paper currency, what other forms of money were accepted? Were women or children able to have money or use it?

### Building Technology Skills

1. Conduct an online search to determine if the utility companies in your area offer automatic payment options. What is required to set up an automatic payment plan? In your opinion, what are the advantages and disadvantages of paying utility bills automatically instead of sending a check? Report your findings.
2. Conduct an online search to determine what is needed to open an online checking account. Find out what the system requirements are and what fees may be charged for this service. Report this information to the class.

3. Design a Web page that a full-service financial institution could use to advertise its many products and services. Include information that customers would need to know.

### Building Career Knowledge and Skills

1. Write a short paper on the advantages and disadvantages of using a debit card.
2. Invite a representative of a financial institution to visit your class. Ask questions about various services, fees, and types of accounts.
3. Investigate the consequences of having a check bounce. Talk to store managers and bank officials to get both sides of the story. Discuss your findings in class.
4. Design posters to illustrate the topics discussed in this chapter. Display them throughout your school.

### Building Workplace Skills

Visit three financial institutions in your area and compare them for convenience, services, fees, and types of accounts available. Work as a team with two or three of your classmates and assume you are old enough to open a joint account. When you visit each institution, speak to a bank representative and explain that your visit is a class project. Be sure to obtain relevant brochures. What are the costs and requirements of a joint checking account at each institution? Using a computer, create a report that compares the facts you gathered. Decide which institution you would choose to open the new account. Make a brief presentation to the class explaining your team's decision.