LESSON

This lesson will look at characteristics of money, how money is used and needed, how to write checks and how to balance a checkbook. Online banking will be discussed.

OBJECTIVES

The student will:
- Compare different forms of payment
- Write checks
- Balance a checkbook

How Do Checks Work?

When we deposit money in a bank’s checking account for safekeeping, we can write checks authorizing them to pay our money to other people for us. Checks require our signature because, while they are not considered currency, they are legal documents. Remember that checks are not money, the deposits made are.

The banking system processes checks like this: You write a check to a store for a purchase. The store accepts your check as payment and gives you the items. Your check is delivered to the store’s bank with all of the others they receive that day and is deposited into their account. That bank passes the check to a clearinghouse, which sends it back to your bank.

Your bank then reverses the process. It deducts the money from your account and sends it back through the clearinghouse to the store’s bank. Finally, the store’s bank deposits the money into the store’s account. All of this happens within just a day or two.

Although the whole clearing process is complicated, using a checking account is not. Checks are convenient replacements for cash, but they have many other advantages, too. They record where, when, and how you spend your money. Checks also provide...
proof of payment if there is ever a disagreement.

Each check has preprinted information about the accountholder and the bank it will be drawn on (or withdrawn from). There are places to write the date, amount, and name of the person or place the bank should pay. At the bottom right corner, the writer must sign his or her name, legally authorizing the bank to pay the funds.

At the bottom of each check there are numbers that tell the banking system which bank the check is drawn on, as well as whose account it is.

**How Do You Know How Much Money You Have?**

Have you ever used a checking account? If so, then you know how important it is to keep track of how much money you spend when you write checks.

You will use a checkbook register to write how much money goes into or out of your account. A register is simply a booklet in which you can write all of your checking transactions. Every deposit or withdrawal should be written down and added or subtracted from the total.

There are places to write check numbers, dates, transaction descriptions, and amounts. The last column is for a running balance of the total in your account. One column has a checkmark at the top. It can be used to check off whether or not the transaction has cleared the bank.

You should go ahead and subtract any checks you write or withdrawals you make as soon as you make them. This could mean that your bank will not show the same balance as you. Just remember that the bank’s balance should always be higher or the same as your own records.

Once a month (or more) you should do what is called “balancing” your checkbook. This is when you will take your bank’s records and compare them with your own to make sure all of the transactions have occurred correctly. It is also a good time to double-check your math and the bank's accuracy in processing.

An easy way to do this is to place a copy of your bank statement next to your checkbook register. Have the register open to the point at which you know your balance last matched the bank’s. Find the list of checks that have cleared your account according to the bank and check them off in your register.

Next look for deposits listed by the bank and make sure they are listed in your register for the same amount. Make a check mark in the appropriate column.

Any withdrawals or deposits that have been made electronically should be accounted for next. Verify the amounts and check them off in your register.
Finally, if you have any checks that are outstanding, or have been written but not yet cleared the bank, subtract the amounts to the bank statement balance to see if it matches yours. Some banks provide a worksheet on the back of their statements for this purpose.

If you have recorded all of your transactions correctly, the bank’s balance should match yours. If not, go back through and make sure every transaction has been accounted for.

<table>
<thead>
<tr>
<th>CHECK #</th>
<th>DATE</th>
<th>DESCRIPTION OF TRANSACTION OR WITHDRAWAL</th>
<th>AMOUNT OF PAYMENT</th>
<th>AMOUNT OF DEPOSIT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1/03</td>
<td>Balance Carryover</td>
<td></td>
<td>□</td>
<td></td>
<td>127 31</td>
</tr>
<tr>
<td>3417</td>
<td>6/7/03</td>
<td>Gateway College</td>
<td>□</td>
<td>57 29</td>
<td>70 02</td>
</tr>
<tr>
<td>3418</td>
<td>6/9/03</td>
<td>Carl Gals (snacks &amp; tip)</td>
<td>□</td>
<td>19 00</td>
<td>51 02</td>
</tr>
<tr>
<td>6/15/03</td>
<td>Cat’s Menu paycheck</td>
<td></td>
<td></td>
<td>315 76</td>
<td>366 78</td>
</tr>
</tbody>
</table>

What Are Electronic Funds Transfers?
Have you ever had direct deposit of your payroll? Maybe you have had a membership to a fitness center that took money directly out of your account for you. These are both examples of electronic funds transfers.

For your convenience, you can give companies permission to withdraw or deposit money to your account automatically. No checks change hands in this situation, the companies simply notify your bank using a special electronic system and the transaction is made for you.

No company can just withdraw money from your account without your permission. For them to be able to withdraw, you have to sign an initial authorization form. They keep the form on file as long as they continue to make withdrawals.

Think About This:
1. What kinds of things might you prefer to write checks for instead of paying cash?
2. Are checks safer than cash? Why or why not?