

# Lesson 6

## CHECKING ACCOUNTS

### *Balancing the Numbers*

#### OVERVIEW:

It is extremely important to keep track of the balance in your checking and savings accounts. To do so, each month it is good practice to reconcile or balance the amount reported by the bank with the balance in your checkbook. This requires reviewing your bank statement to ensure checks you have written have been cashed or cleared by the bank and that your deposits and ATM withdrawals are properly recorded by your bank. In addition, there may be service fees that are deducted from your account by the bank that you need to deduct from your checking account balance as well.

The difference between your checkbook balance and the balance reported on a bank statement is usually due to:

- **Deposits in transit** — deposits you make after the bank has prepared and mailed the bank statement.
- **Withdrawals** — money you take out after the bank has prepared and mailed the bank statement.
- **Outstanding checks** — checks you have written that have not been cashed or cleared by the bank.
- **Service Fees** — charges the bank deducts from your account.

#### STUDENT ACTIVITY:

At the beginning of this month, you have opened your first checking account with \$500. During the month you record all your bank transactions and have a balance of \$450 at the end of the month. However, upon receiving the bank statement you note that the bank is reporting a balance of only \$325 — a difference of \$125.

As you review the bank statement and your checkbook, you note that you wrote 5 checks totaling \$250, but one for \$50 is not reported on the bank statement. You also note that you made a total of 4 ATM withdrawals in the amounts of \$80, \$40, \$50, and \$30, but the last withdrawal is not reported on the bank statement. In addition, you made 3 deposits, but the last one for \$200 is not reported on the bank statement. Lastly you note that the bank deducted \$5 from your account for services fees for processing your transactions.

Use the form below to reconcile your checkbook balance of \$450 to the balance of \$325 reported on the bank statement. Explain which balance is correct and why the balances differ.

Balance according to the bank statement	\$325
<b>Add:</b> Deposits in transit	\$
<b>Deduct:</b> Outstanding checks	\$
ATM withdrawals not reported	\$
Balance according to your checkbook, <i>after</i> deducting service fees	\$