

Checking and Savings Accounts

Pretest

1. It does not matter which kind of checking account you open. Just get the one with the lowest service charge.
 - a) True
 - b) False
2. Some checking accounts pay interest but the interest rates vary from bank to bank. It pays to shop around.
 - a) True
 - b) False
3. You can any type of savings account for your IDA account.
 - a) True
 - b) False
4. You always have to pay a service charge on a checking account regardless of the balance.
 - a) True
 - b) False
5. What is a senior account?
 - a) A checking account you open your last year of high school
 - b) A bank account that is specially designed for older customers
 - c) An inactive or dormant account
6. Why should you always write your checks in ink?
 - a) So the amount on the check cannot be altered.
 - b) So the signature on the check cannot be erased.
 - c) Both a and b.
7. What is the first thing you should do if you reconcile (balance) your checkbook against your checking account statement and you find your balance is different from the bank's balance?
 - a) Make sure you entered all AMT withdrawals and subtracted them in your checkbook.
 - b) Double check all additions or subtractions in your checkbook.
 - c) Call the bank and complain
8. Why should you write the words "for deposit only" on checks you are endorsing?
 - a) That guarantees the check cannot be cashed by someone else if lost.
 - b) Because that makes you look smarter than you would if you just used a blank endorsement.
9. If you have \$1,000 deposited into an account that pays 6% interest, how long would it take for that account to be worth \$2,000 or double the balance now?
 - a) 20 years
 - b) 12 years
 - c) 4 years
 - d) forever

10. When is the best age to open an IRA to provide for your retirement?
- a) When you are age 55
 - b) When you have put all the money you can in your company's retirement plan
 - c) As early as you can so the money has time to grow
 - d) Never if you have a retirement plan at work

Checking and Savings Module

In the Checking and Savings Accounts module, you are going to learn about several types of checking accounts and several types of savings accounts.

Checking Accounts

You are going to keep a sample check book for one month and reconcile (balance) your checking account statement for that month.

Read pages 1, 2, and 3 to answer the question, "Which Checking Account is Right for You?"

Now read pages 4, 5 and 6 and learn about the ownership of accounts and how accounts are to be titled.

Read page 7 and make a copy of this worksheet for your own personal use. This is a good tool to use as you shop for the bank that best fits your needs.

Pages 8, 9, 10, 11, 12, 13, 14, 15, and 16 make up your written exercise for this chapter. Let's go through them one page at a time.

- Page 8 explains the correct way to write a check. Note: this is one area where you cannot become too creative – you can only write a check the correct way. If not, the bank will not honor it as a negotiable instrument. So read this information carefully.
- Page 9 has the instructions for the Student Practice Checkbook. You will write checks for the month of August, 2000 following the instructions set out on page 9.
- Page 10 is a bank account reconciliation worksheet. When you receive your bank statement, you'll reconcile or balance it with the method this page demonstrates. You will complete this page later.
- Page 11 is the check register that goes with the Instructions for Student Practice Checkbook on page 9. It may be easier to complete this if you take it out of the book and set it beside the page 9 instructions.
- Pages 12, 13 and 14 are your practice checks.

Now begin the exercise. On page 9 you see a balance brought forward of \$235.20. Enter that in the right hand column at the top of the check register on page 11.

Check #101 – Write that check according to the instructions you read on page 8. Enter the check in the check register on page 11 in the payment/debit column. Subtract the amount of this check from the balance and enter the new balance.

Check #102 – Write it, enter it into the check register and subtract this amount from the balance.

Deposit a paycheck on August 5. Enter \$450 in the deposit/credit column. Add this amount to the balance and enter the new balance.

Do you see the pattern? If it is a check you enter the important information:

- check number
- the date
- who the check was written to (description of transaction)
- the amount in the payment/debit column

Then subtract that amount from the balance. The service charge on the checking account is handled like a check, but there is no check number. Just as with a check, the amount is entered into the payment/debit column and subtracted from the balance.

If it is a deposit you enter the information just as for a check:

- the date
- who the deposit was from (description of transaction)
- the amount in the deposit/credit column

Then add that amount to the balance.

Complete the entire exercise. Your ending balance should be \$374.91. If that is not your balance, go back and find your error.

Now it is time to reconcile (balance) your checking account. Look at pages 15 and 16 and pull page 10 out of the book. First carefully read the instructions on page 15. They tell you how to reconcile your check book balance to the balance on your checking account statement.

Page 16 is your bank statement. Following the instructions on page 15 and using the worksheet on page 10, complete this exercise. You are done when the balance on page 10 equals the balance in your check register -- \$374.91.

Read page 17 - Am I Making My Account Work for Me? Keep this as a reference when you are considering banks and checking account options.

Pages 18 and 19 include information on depositing checks, including more details on endorsements.

Savings Accounts

Page 20 has an exercise called, “Think about Saving Money.” Do this exercise.

Read page 21, which explains Savings Accounts.

Pages 22 and 23 explain how to choose the right kind of savings account, and the right place for your savings account. You could copy these two pages and use them as a worksheet when you are selecting a financial institution or savings account product.

Page 24 has a quiz on the Magic of Compound Interest. Take the quiz and see if you can understand why we say compound interest is like magic.

Individual Retirement Accounts are special savings accounts designed to set aside money for retirement. Read the information on pages 25, 26, 27, 28 and 29 to learn about these retirement accounts and how they can help lower your tax bill while they help you set aside money for retirement.

Page 30 explains “The Rule of 72.” The Rule of 72 in a nutshell:

Divide the interest rate into the number 72 to determine how long it will take to double your money.

Keep this as a handy reference to help you make savings and investment decisions when you are saving for a long-term financial goal such as retirement or children’s college.

Special supplemental information on the Federal Reserve Bank is included on Appendix A on page 31 and Appendix B on pages 32 and 33. The Federal Reserve System has governance and oversight responsibilities for banks in the U.S. and provides member banks with services.

Posttest

1. An Individual Development Account savings account is one type of individual account.
 - a. True
 - b. False
2. You never earn interest on a checking account. Only savings accounts pay interest.
 - a. True
 - b. False
3. The Rule of 72 means that you have to make 72 deposits in a year to earn any interest on your account.
 - a. True
 - b. False
4. A Corporation is a legal entity or artificial person created by state or national law.
 - a. True
 - b. False
5. It is just fine to write a check in pencil.
 - a. True
 - b. False
6. How old do you have to be to open a senior account?

- a. 21
 - b. 65
 - c. That depends upon the bank, but usually at least over age 50.
7. When should you reconcile (balance) your checking account?
- a. As soon as you can after the monthly account statement arrives.
 - b. Save up the statements and balance once a year.
 - c. Don't bother. The bank is always right. Just enter their balance in your checkbook register.
8. What is wrong with having a check with a blank endorsement in your pocket?
- a. Blank endorsements are illegal.
 - b. A check with a blank endorsement is just the same as cash. If you lose the check anyone who finds it can cash it.
9. If you have \$1,000 deposited into a certificate of deposit that pays 12% interest, how long would it take for that account to be worth \$2,000 or double the balance now. (Hint: use the Rule of 72)
- a. 20 years
 - b. 6 years
 - c. 4 years
 - d. forever
10. Do you need an Individual Retirement Account (IRA) if you have a pension plan at work?
- a. You can't. IRAs are for self-employed people only.
 - b. Yes, if you are within income guidelines.

No, the pension is enough.