7.1: Your Own Money- Cash

Learning Objectives

1. Identify the cash flows and instruments used to manage income deposits and expense payments.
2. Explain the purpose of check balancing.

Most people use a **checking account** as their primary means of managing cash flows for daily living. Incomes from wages and perhaps from investments are deposited to this account, and expenses are paid from it. The actual deposit of paychecks and writing of checks, however, has been made somewhat obsolete as more cash flow services are provided electronically.

When incoming funds are distributed regularly, such as a paycheck or a government distribution, **direct deposit** is preferred. For employers and government agencies, it offers a more efficient, timely, and secure method of distributing funds. For the recipient, direct deposit is equally timely and secure and can allow for a more efficient dispersal of funds to different accounts. For example, you may have some of your paycheck directly deposited to a savings account, while the rest is directly deposited to your checking account to pay living expenses. Because you never "see" the money that is saved, it never passes through the account that you "use," so you are less likely to spend it.

Withdrawals or payments have many electronic options. **Automatic payments** may be scheduled to take care of a periodic payment (i.e., same payee, same amount) such as a mortgage or car payment. They may also be used for periodic expenses of different amounts—for example, utility or telephone expenses. A **debit card** may be used to directly transfer funds at the time of purchase; money is withdrawn from your account and transferred to the payee's with one quick swipe at checkout. An **ATM (automated teller machine) card** offered by a bank allows for convenient access to the cash in your bank accounts through instant cash withdrawals.

The bank clears these transactions as it manages your account, providing statements of your cash activities, usually monthly and online. When you reconcile your record keeping (i.e., your checkbook or software accounts) with the bank's statement, you are balancing your checking account. This ensures that your records and the bank's records are accurate and that your information and account balance and the bank's are up to date. Banks do make mistakes, and so do you, so it is important to check and be sure that the bank's version of events agrees with yours.

KEY TAKEAWAYS

- A checking account is the primary cash flow management tool for most consumers, providing a way to pay for expenses and store cash until it is needed.
- Balancing your checkbook reconciles your personal records with the bank's records of your checking account activity.

Exercises

1. In My Notes or your personal finance journal, inventory in detail all the vehicles you use for managing your cash flows. Include all your accounts that are mediated through banks and finance companies. Also, list your cards issued by banks, such as debit or ATM cards, and identify any direct deposits and automatic payments that are made through your savings and checking accounts. How might you further enhance your cash management through the use of banking tools?
2. Does your bank offer online banking services, such as electronic bill payment? View your bank and others (such as www.ingdirect.com) online to learn more about Internet banking. What products and services do online branches and banks offer? Do you (or would you) use those products and services? Why (or why not)? Discuss online banking with classmates. What do they identify as the main benefits and risks of electronic banking?