

Topic 6: Understand the purpose of bank statements

After completing this topic, you will be able to:

- explain what a 'bank statement' is and some of the entries that appear on it;
- understand the effect of bank charges in planning;
- explain balance enquiries;
- explain interest earned statements and income tax on interest earned, and how to get tax paid back; and
- balance a bank statement and reconcile it, including items such as cheques and credits not yet received, variable direct debits and mistakes.

What are bank statements?

Bank statements list all of the transactions that put money into and take money out of a bank account. The types of transaction that appear on a statement depend on the type of bank account to which it refers – for example, a current account or a savings account.

Purpose of a bank statement

There are many reasons why banks send out bank statements to their customers, including:

- to give the customer a permanent record of the transactions that went into and out of the account over a certain period of time – information that the customer might want to show the tax authorities, or to show a lender to prove how much they earn if they are applying for credit;
- so that the customer can check that direct debits have been taken on the correct day and for the correct amount (and the same for standing orders);
- to check that credits have been entered for the correct amount;
- to check that nobody else has fraudulently accessed their account;
- to make sure that debits and withdrawals from automated teller machines (ATMs) have been deducted from the account for the right amount; and
- to check that any bank charges deducted by the bank are as expected and are neither too much nor incorrect.



Information shown on a current account bank statement

A bank statement records the transactions on the account for a specified time period. Each line on the statement is a separate transaction.

Let us look at an example.



Activity 6a

Teo has just received the statement for his current account with Big Bank plc. This is what the top part of the statement looks like:

Current Account Statement

Account number: 71290439
Statement number: 8
Statement for 16 April to 15 May 201X
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Big Bank plc

12 The High Street
Midtown
MT4 17J
Branch number: 91-20-07
Telephone: 01632 960960

Mr Teo Szabo
28 Oak Street
Midtown
MT51 6PN

Date 201X	Details	Payments	Receipts	Balance
15 Apr	Balance from statement 7			200.00
18 Apr	Cash machine wdl	30.00		170.00
21 Apr	Direct debit – Umbrella Insure Co	12.50		157.50

Use Teo's bank statement to answer the following questions.

a) What is the number of the account that this statement is for?

b) Where is the branch located?

- c) What is the sort code of the branch at which this account is held?**
- d) If Teo were to have a question about a transaction on this statement, what telephone number should he call?**
- e) How many pages are there for this bank statement?**
- f) What do you think 'wdl' means?**
- g) How much money was in Teo's bank account at the end of business on 18 April 201X?**
- h) How much did Teo pay the insurance company in April?**

Understanding current account statement entries

There is no standard format for bank statements. Each bank or building society can use a different layout and way of describing the information shown. They do, however, all tend to use five columns:

- one for the date;
- one showing a description of each entry;
- a column for amounts paid in;
- a column for amounts paid out; and
- a balance column.

The following table lists and describes some of the entries that appear on statements.

Balance	Statements usually start with the balance from the previous statement, ie the amount of money that the account holder had in the account on the last day of the last statement. Transactions are listed and each time that money is added to the account or taken out of the account, the total amount held or owed after this transaction (ie the balance) is also entered. A new balance is therefore entered after every transaction. Statements end with the balance at the statement date.
Cash machine	This details any money withdrawn from the account through a cash machine. Entries can also be described as 'ATM'.
Cheque	This will detail any money taken out of the account because the account holder has written a cheque to pay a person or an organisation. Statements show the number of the cheque, as well as the amount paid out.
Credit	This refers to money paid into the account.
Direct debit	Where a direct debit has been taken, it shows the name of the organisation that has collected the money and the amount taken.
Overdrawn	Where the account holder has spent more than they have in their account, the balance will be shown as a minus figure – eg '–£23.47' – or it might say '£23.47DR', meaning that the account is £23.47 into its overdraft.
Page number	The account holder may have made so many transactions on the account that the statement list runs to more than one page. Each page will be numbered.
Payments	This refers to money taken out of the account. This column can also be called 'Withdrawn' or 'Debits'.
Receipts	This refers to money put into the account. This column can also be called 'Paid in' or 'Credits'.

Standing order	This is a regular, automated payment from the account that is the same amount of money each time. This will show to whom the money was paid and how much.
Statement date	This is the date on which the statement was printed. Transactions made on the account after that date will appear on the next statement.
Statement number	The statements for an account are numbered from '1' upwards.



Activity 6b

Some statements show descriptions for entries in full and some use abbreviations. Complete the table to show what you think these abbreviations might mean.

Abbreviation	Meaning
CHG	
CHQ	
D/D	
INT	
O/D	
S/O	
TRF	

Checking current account statements

When you receive a bank statement, it is very important that you check the entries to be sure that there are no mistakes or missing items.

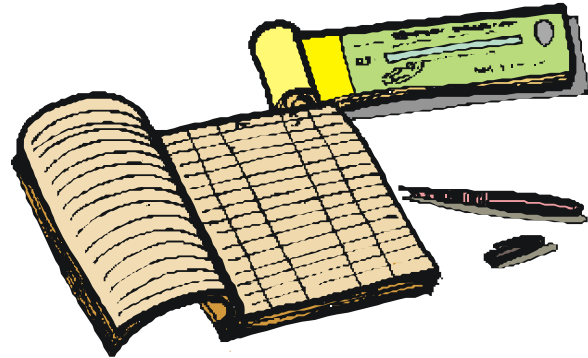
How to check statements

You must always keep paper printouts, paying-in slips and debit card vouchers to be able to check your current account statement. Paying-in book stubs and chequebook stubs are also important.

So you will need to look at:

- ATM withdrawals listed on the statement along with printouts of withdrawals collected at the time that they were made;
- withdrawals listed on the statement alongside the counter receipts of withdrawals that were made at a branch;

- credits listed on the statement alongside the counter receipts and paying-in stubs showing money paid into the account at a branch;
- payments listed on the statement against debit card vouchers and the information in your chequebook;
- automated payments, such as direct debits and standing orders, to check that they are the amounts expected;
- payslips from employers to make sure that they agree with the direct credit on your bank statement; and
- advice received from your bank regarding any bank charges or interest to ensure that the figures on the statement agree with the advice.



What to do if you find a mistake

If there is a mistake on a bank statement, you should contact the branch immediately. Mistakes made by the bank can be corrected – and banks can make mistakes. This is why it is important that you check your statements carefully.

Did you know?

If the bank makes a mistake, you should inform your bank immediately – no matter how tempting it is not to do so.

It may be that the mistake you find on your statement is a credit of which you are not aware – that is, some extra money has been put into your account by mistake. Keeping this money could lead to criminal charges against you of the offence of 'retaining wrongful credit'.

Bank charges

You will be aware of bank charges and how these can be added to your account by a bank for things such as an unauthorised overdraft if the bank has been unable to make a payment on your account.

The bank must write to let you know about any bank charges and give you plenty of warning, so that you can ensure that there is enough money in your account to pay them.



What might happen if the bank were to fail to let you know in advance about bank charges?



Activity 6c

The below is a statement that Maria has received from her bank.

Statement of Account

Current Account: 22187655
Overdraft limit: £100
1 July to 31 July 201X

Ms Maria Dane
Flat 4A, Apartment Heights
17 Chestnut Road
Anytown
AK6 2BX

ABC Bank plc

8 High Street
Anytown
AK4 9GL
Branch code: 12-34-56
Telephone: 01632 960069

Statement number: 43
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Date	Details	Payments	Receipts	Balance £
	Balance from Statement 42			56.00
3 July	Bank Credit PEABODY LTD ^A		600.00	656.00
4 July	ATM Withdrawal	30.00		626.00
7 July	Cheque 102234	200.00		426.00
12 July	Standing Order BARNADOS ^B	3.00		423.00
14 July	Cheque 102235	45.50		377.50
14 July	ATM Withdrawal	30.00		347.50
17 July	Direct Debit HOPE INS CO ^C	12.00		335.50
18 July	Debit Card Cinema Now ^D	14.95		320.55
21 July	ATM Withdrawal	130.00		190.55
24 July	Debit Card Food Store	66.21		124.34
28 July	Counter Credit 12-34-56 ^E		44.14	168.48
28 July	ATM Withdrawal	30.00		138.48

Can you identify what each of the items marked A-E represents?

Bank statements are received regularly, but they do not give you an up-to-date balance.

Balancing your statement and reconciliation

'Reconciliation' is a word that means 'explaining a difference'. We have already explored how important it is to know where money has been spent and to check the bank statements. Reconciling your statement takes this one step further – that is, it is making sure that if the balance on your bank statement does not match the amount that you thought you had, you can find out what the difference is.

Reasons why there might be a difference include that:

- you might have been to the shop in the last couple of days and spent some money on your debit card – but the payment might not have been taken from your account yet;
- you might have written a cheque and, when you check your statement, the money might not have been debited from your account yet; and
- you might have forgotten about a certain direct debit that goes out of your account each month – which will mean that the amount in your account might be less than you expected.

Balances



If there is a difference between the amount that you expected to be in your account and the amount shown on your bank statement, you can refer to your ATM withdrawal slips, debit card receipts, over-the-counter receipts and chequebook stubs to find out which payments or credits are not yet showing on your statement.

You can then go to an ATM, or use online banking or telephone banking, to see if any of these items have been debited or credited since the bank statement was printed and posted.

This is when getting an up-to-date balance from any of these sources is really useful.



Case study

Hussein has kept a record of his spending last month and thinks that his bank balance should be £56. When he gets his bank statement, the balance is £100. He knows that he has issued a cheque for £44, but wonders why it is not showing on his bank statement.

The answer is that the cheque has not gone through his bank account yet. If he looks again in another couple of days, by getting a balance from the ATM or by looking at his account using online banking, Hussein will probably see that the cheque has gone through. It may take a bit longer if the person to whom he gave the cheque has not taken it to their own bank yet.



Activity 6d

Sage has also kept a record of her bank balance and her spending. She thinks that her bank balance should be £34 after her mobile phone bill has been paid by direct debit.

The balance is showing as £65. What does this mean for Sage?



Activity 6e

Phoenix is also very careful with money. The bank balance should be £70 according to her calculations, but her statement shows only £20. She knows that she has not made a mistake.

Why the balance might be different? (Note: It is not a bank error.)

Calculations for bank reconciliations

To be sure that a bank balance is correct, it is important to balance your account and to be able to explain the differences.



Case study

Earl has in his notebook the following financial items.

5 April	Cash	£50
12 April	Gym membership	£25
14 April	Food (Debit card)	£30
18 April	Cheque to Rob	£27
21 April	Paid in at NatWest	£78
21 April	Pay day	£356
23 April	Balance	£467

He gets his bank statement, which looks as follows.

Date	Details	Payments £	Receipts £	Balance £
	Balance from statement 42			165.00
5 April	ATM	50.00		115.00
12 April	D/D Gym	25.00		90.00
14 April	Asda (debit card)	30.00		60.00
21 April	Pay		356.00	416.00
23 April	Balance			416.00

Earl could do his bank reconciliation in his notebook. The stages for his calculations will be as follows.

First, he will spot the items that he has in his notebook that are not on the bank statement. These are the cheque to Rob and the money paid in at NatWest.

Earl can now explain the difference as follows.

- Bank statement balance £416.00
- Plus money paid in at NatWest £78.00
- Less cheque paid to Rob £27.00
- Balance £467.00

This agrees with Earl's own records.

Make sure that you follow how this calculation has been done.



Activity 6f

Sam keeps a notebook to record the money that he puts into and takes out of his bank account, just like Earl. It helps him to keep track of his finances. This is what he has written in his notebook.

10 October	Cash	£130
13 October	Mobile phone contract	£20
15 October	Tesco – present for friend	£19.99
20 October	Cheque to Mum (board)	£120
21 October	PC World – cartridges	£55
21 October	Salary paid in	£920.56
23 October	Balance	1430.57



When Sam receives his bank statement, it looks like this:

Date	Details	Payments £	Receipts £	Balance £
	Balance from Statement 21			855.00
10 October	ATM	130.00		725.00
13 October	D/D O2	20.00		705.00
15 October	Tesco (debit card)	19.99		685.01
21 October	Direct Credit Moss and Co		920.56	1605.57
23 October	Balance			1605.57

Show how Sam can do his bank reconciliation in his notebook. Does Sam's balance agree with his statement?

Interest earned statements and income tax

Current accounts are generally for everyday use – for receiving credits, such as wages and salaries, and for paying bills and covering shop purchases. However, some people do keep substantial balances in their current accounts and sometimes the bank will pay a small amount of interest on credit balances.

Any interest earned on money held in all bank accounts and savings accounts is classed as 'income' and tax has to be paid on it, just as tax is paid on any other income.

In most cases, the tax is deducted before the interest is added to the account. It is deducted at the basic rate of 20 per cent.



Case study

Sam has now managed to save up a balance of £5,000 in an account paying an interest rate of 1.5 per cent. He will earn £75 interest in one year:

$$£5,000 \times 1.5\% = £75$$

Tax will be deducted from this interest at a rate of 20 per cent, as follows:

$$£75 \times 20\% = £15$$

$$£75 - £15 = £60$$

So Sam will receive £60 interest after tax.

If the account holder is a higher rate taxpayer – that is, if they pay tax on their income at 40 per cent – they will have to tell HM Revenue & Customs (HMRC) about the interest that they have received and pay an extra 20 per cent tax. So, in the above case study, Sam would have to pay an additional £15 if he were a higher rate taxpayer.

All deposit-takers (that is, banks and building societies) issue their account holders with a statement of interest earned and tax deducted at the end of each tax year. This gives the account holder a record of the amount of tax deducted, which they will need to give to HMRC if they are completing a self-assessment tax return.

If an account holder is a non-taxpayer (that is, if their total income falls below the personal allowance), they can complete a special form and request that their interest is paid without any tax deducted.



Review questions

1. List four reasons why banks send out bank statements.
2. What are the five columns on a bank statement for?
3. What other information would you find on a bank statement?
4. What would you do if you were to find a mistake on a bank statement?
5. What does it mean to 'reconcile your bank statement'?
6. If there were a difference between the balance on the bank statement and the amount that you thought it should be, how would you begin to solve this problem?

Learning activities



Internet

Visit some bank websites, such as www.natwest.com, www.barclays.co.uk, www.lloydsbank.com, etc, and find out more about their bank charges. Do you think that the charges are fair?



Group

- If you have any smartphones in your class, look at the list of free finance apps and download a couple. Use the apps to record someone's spending and see how easy they are to use.
- Use Google to search for a bank reconciliation spreadsheet. Practise filling in the blanks.



Individual

Talk to family and friends about how they manage their money.

- Do they reconcile their bank statement every month, or do they do it more regularly using Internet banking?
- Do they keep a notepad and record all of their transactions, or do they just match their slips, receipts and chequebook stubs to the entries on their bank statement?



Key points for Topic 6

You should now understand:

- the items included on a bank statement;
- the purpose of a bank statement;
- all of the places from which you can get a more up-to-date balance;
- the reasons why you should check your bank statement as soon as it arrives;
- how to reconcile any differences between the bank statement and your own records.