

A **bad check** is a check that is written for an amount that is greater than the balance in the checking account. A bad check is also called an *insufficient funds check* or a *bounced check*. Many banks charge penalties for writing bad checks. These penalties can be significant and can result in numerous problems.

In addition to bank and possible vendor penalties, writing a bad check is illegal. The penalty varies by state but can involve a fine and a prison term. Whether the state takes legal action usually depends on whether a person intentionally or accidentally writes a bad check.

EXAMPLE 4 Calculating Bad Check Penalties



Some common reasons overdrafts occur are errors in an account register, failure to enter ATM or debit card transactions in a register, and temporary holds on deposits.

You forget to record an ATM withdrawal of \$100 (5/20/12) in your checkbook registry. This causes three checks to “bounce.” Your bank charges \$50 for each bounced check. You think the balance in your account as of 5/23/12 is \$2.63. What is the actual balance after the bad check penalties are deducted?

Date	Check #	Transaction	Credit	Debit	Balance
		Balance Forward			332.85
5/20/12	406	Cell Phone Company		219.45	113.40
5/23/12	407	Pharmacy		23.56	89.84
5/23/12	408	Electric Company		48.67	41.17
5/23/12	409	Credit Card Payment		38.54	2.63

SOLUTION

After the penalties are deducted, your checkbook registry will look like this.

Returned to vendor, not paid.

Returned to vendor, not paid.

Returned to vendor, not paid.

Date	Check #	Transaction	Credit	Debit	Balance
		Balance Forward			332.85
5/20/12		ATM Withdrawal		100.00	232.85
5/20/12	406	Cell Phone Company		219.45	13.40
5/23/12	407	Pharmacy		23.56	13.40
5/23/12		Insufficient Funds Penalty		50.00	-36.60
5/23/12	408	Electric Company		48.67	-36.60
5/23/12		Insufficient Funds Penalty		50.00	-86.60
5/23/12	409	Credit Card Payment		38.54	-86.60
5/23/12		Insufficient Funds Penalty		50.00	-136.60

The actual balance in your account is -\$136.60.

Checkpoint

Help at Math.andYOU.com

Suppose that each vendor in Example 4 also charges \$25 for a bounced check. How much does forgetting to record your ATM withdrawal cost you?