

Topic 2(g) Paying by cheque



What is a cheque? You might want to think how cheques differ from cash when deciding on your definition.

Information on a cheque

Here is an example cheque, belonging to Sarah Holmes:

Date	To	Amount £	76 - 54 - 32
			30 High Street Seaville S021 6TH
			Date _____ 20____
Pay _____			£ _____
			MS SARAH HOLMES
Cheque Number	Sorting Code	Account Number	A/C PAYEE
300061	765432	12345678	

As you can see, a **cheque** is a printed form showing the bank and branch name and sort code where Sarah holds her account. The cheque also shows her account number and gives a unique number for this cheque.

The information on the bottom line of the cheque is printed in a way that can be read by computer. This makes processing cheques faster than keying in all information by hand.

Accountholders use cheques to give written instructions to their bank or building society on a specified day to pay a specified amount of money to the account of a specified person or organisation.

How to fill out a cheque



Activity 1

Sarah wants to send £20 to her cousin Cathy by cheque. Have a go at filling out the blank cheque above using the following information:

- Today's date is 12 January 2006.
- Cathy's account is in the name: Catherine Johnson.



Why do you think each cheque has a unique cheque number written on it?

How Sarah fills out the cheque

She writes in today's date in the space provided for it in the top right of the cheque. She chooses to write the date in full. She could also write 12.01 or 12/01 for the 12th January before writing in the year.

Then she writes the name of Cathy's bank account on the 'Pay' line.



Date	To	Amount £				76 - 54 - 32
						Date <u>January 12th 2006</u>
						£ <input type="text"/>
						MS SARAH HOLMES
Date	To	Amount £	Payee Name	Sort Code	Account Number	A/C PAYEE
300061	300061	765432	Catherine Johnson	765432	12345678	

Sarah can choose to write Cathy's account name in capital letters or to use her normal handwriting, as she has done here. The important point is that her instructions must be clear. People with stylish handwriting should probably always use capital letters!

You will notice that Sarah has written Cathy's name as far to the left of the 'Pay' space as she could. Sarah has also drawn a line after Cathy's account name to the end of the 'Pay' space.

Why do you think she has done that?

Next, Sarah writes in the amount of money she wants to pay Cathy, in words and figures:

Date	To	Amount £				76 - 54 - 32
						Date <u>January 12th 2006</u>
						£ <input type="text"/> 20 — 00
						MS SARAH HOLMES
Date	To	Amount £	Payee Name	Sort Code	Account Number	A/C PAYEE
300061	300061	765432	Catherine Johnson	765432	12345678	

Why do you think that account holders are asked to write the amount in figures and words?

The next step is for Sarah to sign her cheque, using the signature that the bank has on file for her:

Date				76 - 54 - 32		
To						
Amount £						
Pay <u>Catherine Johnson</u> <u>Twenty pounds only</u> <u> </u> <u> </u>				A/C PAYEE		
Date	300061	Cheque Number	765432	Sorting Code	Account Number	MS SARAH HOLMES Sarah Holmes

Did you know?

A cheque is a legal document.

Source: www.apacs.org.uk

Then, Sarah fills out the stub (also called a counterfoil) in her chequebook:

Date	January 12th 2006			76 - 54 - 32		
To	Catherine Johnson					
Amount £	20 - 00					
Pay <u>Catherine Johnson</u> <u>Twenty pounds only</u> <u> </u> <u> </u>				A/C PAYEE		
Date	300061	Cheque Number	765432	Sorting Code	Account Number	MS SARAH HOLMES Sarah Holmes



Why do you think it is important that Sarah fills out the stub with details of the cheque she has written?



Activity 2

Here is cheque from Tony's **chequebook**:

Date	To	Amount £				12 - 34 - 56
ABC Bank plc 8 High Street, Any Town, AK4 9GL						
						Date _____ 20____
Pay _____ _____ _____						£ <input type="text"/>
						MR. ANTHONY NESBITT _____
Date	To	Amount £	Cheque Number	Sort Code	Account Number	A/C PAYEE
201122			201122	123456	12345678	

Tony wants to pay £35.60 to Mr. Ben Turner. Fill out the cheque for him, assuming today's date is 26 January 2007.

When you have filled out the payment details, Tony will sign it.

Making a payment to an organisation

People often write cheques payable to an organisation rather than a person, for example to pay for goods in shops or to pay bills such as the electricity, gas or telephone bill. Many people use cheques to pay their credit card bills.

When people buy goods and services from shops and restaurants etc in person, they give the cheque to the sales assistant at the till or to the waiter. When people pay bills they may go to a bank or the Post Office, or they may send their cheque by post.

Let's look at the case of paying by cheque in a shop first:



Activity 3

Tony wants to buy some new shoes from Spatz Ltd. The shoes cost £69.99, and today's date is 7 February 2007. Tony wants to remember that this cheque is for work shoes because his Mum wants to give him work shoes for his birthday.

Fill in the cheque and stub for him.

Date	To	Amount £				Date _____ 20____
201123			Pay			£ <input type="text"/>
					A/C PAYEE	MR. ANTHONY NESBITT
			Cheque Number	Sort Code	Account Number	
			201123	123456	12345678	



The people who work at Spatz do not know Tony. Do you think that they need some sort of reassurance that his bank will pay the cheque before they let him walk out with the shoes?

Cheque guarantee cards

Banks and building societies provide **cheque guarantee cards** to most current account customers, as long as the banks believe that the customers will use their accounts responsibly. These are plastic cards that guarantee that any cheque written on the account will be honoured, i.e. paid, up to a certain amount of money.

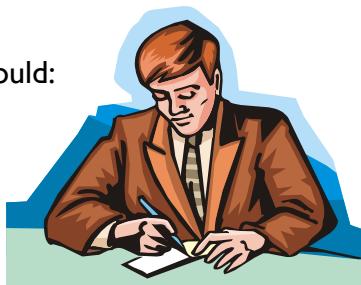
Cheque guarantee cards show the:

- name and sort code of the bank branch where the account is held;
- account name, and often the account number;
- maximum amount of money that the bank guarantees to pay. This amount is written on the card and may be £50, £100 or £250;
- an expiry date for the card (when the guarantee offered by that card stops);
- a specimen signature for the account holder;
- a unique number that identifies the cheque guarantee card.

Banks may give account holders one plastic card that combines the functions of a cheque guarantee card, an ATM card and a debit card. It depends on the type of account and how well they know and trust the customer.

When people buy goods in shops by cheque, the shop staff should:

- see the account holder sign the cheque;
- compare the signature on the cheque to the one on the cheque guarantee card and be sure they are the same;
- make sure the cheque guarantee card is valid, ie the account details on the card match the account details on the cheque and the card has not expired;



- make sure that the transaction amount is less than the maximum guaranteed by the card;
- write the unique number that identifies the guarantee card on the back of the cheque.

Paying bills by cheque

When people pay bills by cheque (such as their gas bill or credit card bill), they need to make sure the organisation can match their payment to their bill. So they complete a paying-in slip for the organisation as well as writing the cheque. This paying-in slip helps the organisation such as British Gas or Barclaycard match the cheque to the correct customer bill because it shows the payer's unique customer number at the organisation.

Organisations usually ask customers to write their customer number on the cheque as well. This is another way of making sure the cheque is used to pay the right bill.

Getting cash using a cheque

Accountholders can use a cheque to withdraw cash at their bank. 'Cash' is written in the 'Pay' space and the accountholder must sign the cheque in front of the bank cashier.

Date	February 8th 2006				12 - 34 - 56
To	Cash				
Amount £	40.00				
ABC Bank plc 8 High Street, Any Town, AK4 9GL Pay <u>CASH</u> _____ <u>FORTY POUNDS ONLY</u> _____ <u> </u> _____					Date <u>February 8th 2006</u>
Cheque Number Sort Code Account Number 201124 123456 12345678					£ <u>40 — 00</u>
					MR. ANTHONY NESBITT <u>Anthony Nesbitt</u>



Why is it important that Tony signs this cheque in front of the bank cashier?

The cashier will ensure that the customer has enough money in the account (including any overdrafts) before handing over the cash.

If accountholders want to withdraw cash at a different branch of their bank, they must have a cheque guarantee card or make a special arrangement. This is to make sure the accountholder has suitable proof of identity and has enough money in their account. A bank branch does not have information about the balances on accounts held in other branches.

Did you know?

The accountholder making the payment is called the **payer** or **drawer**. Accountholders are said to 'draw a cheque on their account'.



Keeping your money safe

Date 01.02.06	To TROOZ LTD	Amount £ 39.99				12 - 17 - 22
						Date 01.02 2006
Pay TROOZ LTD						£ 39 — 99
THIRTY-NINE POUNDS AND NINETY-NINE						MR. JASON NEAL
PENCE						Jason Neal
Cheque Number	Sort Code	Account Number				A/C PAYEE
101132	121722	66514282				

Cheques usually have two vertical lines written across the 'Pay' and 'amount' in words space. These lines are marked 'A/C PAYEE'.

The person or organisation named in the 'Pay' space on the cheque is called the '**payee**'.

The vertical lines mean that the money can only be paid when the cheque is deposited in a bank account. The cheque is described as being 'crossed' by these lines. The A/C PAYEE means that the bank account must be in the name of the payee given on the cheque. This means that people cannot exchange cheques for money outside of the banking system (e.g. in a pub). The crossed lines and A/C PAYEE are security measures designed to make sure that accountholders' money is paid to the person they specified.

We have already seen that Sarah filled in the 'Pay' and amount spaces with lines to prevent people changing her instructions. She also wrote 'Twenty pounds only' to prevent anyone adding pence to her cheque.

Other security measures that accountholders should take are:

- always write cheques using ink that cannot be erased;
- keep chequebooks and the cheque guarantee card separate so that a thief is unlikely to get both;
- if chequebooks and/or cheque guarantee cards go missing, tell the bank or building society immediately;
- only sign cheques when all the other payment details are completed. A signed cheque that is only partially completed or blank makes it easy for a fraudster to steal money from the account. Never give a signed, blank cheque to anyone.

What happens after the cheque reaches the person being paid?

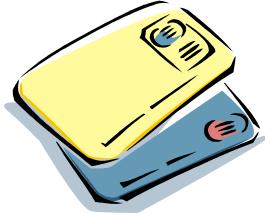
To get the money, payees need to pay the cheque into their bank or building society account. The payee's bank processes the cheque by putting all the payment details into a computer system. The bank then sends this electronic record and the cheque itself to the payer's bank. The payer's bank examines the cheque to make sure it is correct. As long as there are no problems, the payer's bank sends the money to the payee's bank.

The process of moving the money from one account to another is called **clearing** the cheque. It takes at least three working days and can take longer. Before the cheque is cleared, the amount appears in the payee's statement as **uncleared funds**.

Did you know?

There were an average of just over 5.3 million cheques written every day in 2005 compared to 11 million every day in 1990. Source: www.apacs.org.uk

The reduction in the number of cheques is because there are different ways of paying money now - in particular, a lot more people have credit and debit cards.



Can banks refuse to follow the instructions on a cheque?

Reasons why banks might refuse to pay a cheque

Banks and building societies might refuse to pay a cheque, such as when something is wrong with the details written on it. The cheque may be:

- undated;
- postdated (i.e. to be paid in the future);
- dated more than six months in the past;
- incorrect because the amount in words and the amount in figures differ;
- unsigned;
- invalid because the signature does not match the one the bank has on file for that customer.

When cheques are undated or postdated the provider can decide to pay the money and use today's date.

Providers can also refuse to pay a cheque if their customer does not have enough money in the account (including any agreed overdraft).

They may also refuse payment if they have good reason to believe the cheque has been stolen or is counterfeit (a fake).

Stopped cheques

Another reason that a bank or building society can refuse payment is when an account holder asks them to stop payment. For example, suppose an account holder used a cheque to pay for goods that turned out to be faulty. The account holder could contact their bank and ask that the cheque is stopped before it is cleared. They would need to give their bank full details of the cheque and pay a fee.



Can you ask a bank or building society to stop a cheque that has been guaranteed by a cheque card?

What to do if you make a mistake when writing a cheque

You can correct mistakes by:

- drawing a clear line through the mistake;
- writing in the correct details;
- signing the correction with your full signature.

Here's an example:

			12 - 34 - 56
ABC Bank plc 8 High Street, Any Town, AK4 9GL			
Date <u>February 27th 2006</u>	To <u>Michael (Mikey) Smith</u>	Amount £ <u>72.00</u>	Date <u>February 27th 2006</u>
Pay Mikey Smith <u>Anthony Nesbitt</u> <u>MICHAEL</u>			£ <u>72 — 00</u>
SEVENTY-TWO POUNDS ONLY			MR. ANTHONY NESBITT <u>Anthony Nesbitt</u>
Cheque Number <u>201125</u>	Sort Code <u>123456</u>	Account Number <u>12345678</u>	A/C PAYEE

Tony wrote the cheque to Mikey and then realised that his friend's full name is Michael. So he corrected the error by drawing a line through 'Mikey', writing the correct name in and signing the correction.



Review questions

1. What is a cheque?
2. What information is pre-printed on a cheque when the account holder receives their personalised chequebook?
3. What information does an account holder write on a cheque?
4. Who is the payee and who is the drawer?
5. If Ling Yee wanted to withdraw cash using a cheque, what should she write in the 'Pay' space?
6. Why is it important for account holders to fill in their cheque stubs?
7. Should payees use capital letters to write payment details on a cheque?
8. As long as there are no other problems, can a bank refuse to pay a cheque if the date is:
 - a. within the last six months;
 - b. more than six months ago;
 - c. in the future?
9. What will a bank do if the words and figures on a cheque do not show the same amount of money?
10. What does A/C PAYEE mean?
11. What security precautions should people take when they write a cheque?
12. What is 'clearing'?



Case studies

1. Jason wants to pay for some hobby supplies by cheque. Fill in the cheque below using the following information. Then Jason will sign it.

- The shop is called 'Hobby Stuff'.
- Today's date is 15 February 2007.
- The amount is £23.49.

Date	To	Amount £				Date	20
101133							
			Pay			£	
						MR. JASON NEAL	
			Cheque Number	Sort Code	Account Number		
			101133	121722	66514282		

Jason has a cheque guarantee card. What should the shop assistant in Hobby Stuff use this card to do?

2. Sarah has made a mistake on this cheque:

Date	To	Amount £				Date	20
March 3rd 2006	Saroop Chowdry	18-85				March 3rd	06
			Pay	Saroop Chowdry		£	18 — 85
				Eighteen pounds and fifty-eight pence		MS SARAH HOLMES Sarah Holmes	
			Cheque Number	Sorting Code	Account Number		
			300063	765432	12345678		

- Please correct the amount in words for her (assuming the amount in figures is correct).
- How does Sarah tell the bank that this corrected amount is the money she wants to pay?

Learning activities



Internet

1. Visit www.apacs.org.uk and find out:
 - a. what APACS is;
 - b. how many cheques a typical adult receives per year;
 - c. how cheque scams typically happen (choose ‘Payment fraud’ and follow the links).
2. Go to the British Bankers’ Association website: www.bba.org.uk. Select BankFacts from the menu on the left. Then click ‘Running your account’ and select the section on ‘Understanding cheques’. Find out about stopping cheques.
3. Go to www.postoffice.co.uk. The Post Office will cash cheques for current accountholders with certain providers, as long as they have a cheque guarantee card. List the banks and building societies with this arrangement.



Group

1. Divide into two teams. Both teams write cheques to a variety of people, organisations and cash. Include some deliberate mistakes. Now swap the cheques. Can the other team find your deliberate errors? If they can, they should return them to the payers for correction.

There is blank cheque at the end of the worksheet for you to copy and customise with account and payment details.

2. Look through the small ads in the local newspaper. Will sellers accept personal cheques as payment for their items?
3. Divide into two teams. One team lists the advantages of paying by cheque and the other team lists the advantages of paying by cash. Then compare lists and decide what advice you would give someone who had to choose between carrying a lot of cash or their chequebook.



Individual

1. Collect leaflets from banks and building societies. Do they offer chequebooks on all their current accounts? How old do you have to be to be able to get a chequebook?



Key points for paying by cheque

- Cheques are written instructions from account holders to their bank or building society to pay a specified amount of money from their current account to a specified person, organisation or 'cash'. Cheques are legal documents that must be dated and signed.
- Cheques show information that identifies:
 - the bank branch that holds the account;
 - the account that the money is being paid from;
 - who to pay the money to;
 - the amount of money to pay;
 - the cheque in the banking system (cheque number).
- Account holders fill in cheques by writing in the date, the payee's account name, the amount to pay in words and figures and their signature. They should also complete the cheque stub with details of the payment so that they have a record of how that cheque was used.
- There are security precautions to be taken when writing a cheque. The account holder should write in ink, start the payee and amounts at the far left of the spaces provided for them and fill in any unused space with lines. They should only sign the cheque when the other details are complete. They should also keep their chequebooks and cheque guarantee cards separate and report any lost or stolen cheques to the bank or building society immediately.
- Personalised cheques are already crossed and have 'A/C PAYEE' written on them. This means that the payee must deposit the cheque into a bank or building society account that has the same name as the instruction written in the 'Pay' space.
- Banks and building societies give trustworthy customers a cheque guarantee card that guarantees that the customer's cheques will be paid. Cheque guarantee cards have maximum limits such as £50, £100 or £250.
- When account holders pay by cheque in merchants (shops and restaurants, etc), they must sign their cheque in front of the staff and show the guarantee card. The merchant staff must check the card is valid and relates to the bank account that the cheque is drawn on. This member of staff must check the account holder's signature on the cheque against the one on the card and they must write the number of the cheque card on the back of the cheque.
- When account holders use cheques to pay bills they also fill in a paying-in slip for the organisation, and write their customer reference number on the back of the cheque. These two actions enable the organisation to match the cheque to the correct bill.
- Account holders can use cheques to withdraw cash in branches of their own bank or building society. They write 'CASH' in the 'Pay' space and must sign the cheque in front of the cashier so that this member of bank staff can be sure of their identity.

- Accountholders may also be able to withdraw cash using a cheque and guarantee card at other banks and the Post Office. It depends on the account and the policy of the provider. Most banks and building societies will charge for this service.
- When the cheque is paid into the payee's bank account, it is processed by the banking system. This process enables the money to be moved from the payer's account to the payee's account and is called clearing.
- Banks and building societies can refuse to pay a cheque if:
 - there are problems with the information on it (such as a date that is more than six months ago);
 - the account holder does not have enough money in the account (including any agreed overdraft);
 - the provider believes the cheque is fraudulent.
- Accountholders can stop cheques that have not yet been cleared, as long as the payment was not guaranteed by a cheque card.
- If account holders make mistakes when they write a cheque, they can correct them by drawing a line through the error, writing in the correct details and signing the correction in full.