How to Calculate Interest Earned During a Bank Statement Period

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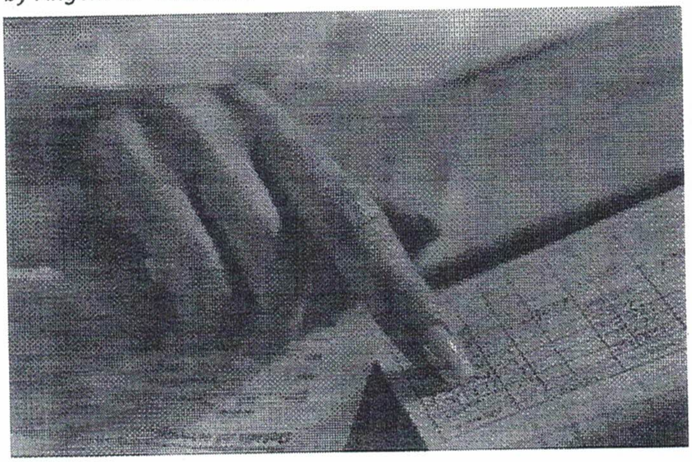

Using an interest bearing account for your business funds is a sensible financial decision. Although interest rates are lower than investing the money, there is substantially less risk. Banks typically offer several interest-bearing options, but the account's balance determines whether a simple savings account or certificate of deposit will earn your business the most interest. Your bank statement will display interest earned for each period, but learning how to calculate the interest earned each bank statement period will help to determine whether your account choice is the best for your business.

Checking, Savings and Money Market Accounts

If your business has an interest-bearing checking account, money market account or savings account, the bank typically pays interest on a monthly basis. Some banks offer a higher interest rate if you maintain a certain amount of money in the business account, but charge a service fee if your balance falls below the minimum balance. The bank statement period for a checking, savings or money market account is usually one month.

Average Daily Balance

Banks typically use your average daily balance to calculate interest each month on checking, savings and money market accounts. To calculate your average daily balance, add up each day's daily balance in your business account for the bank statement period. For example, if you had $3,000 in the account on Day 1 through Day 10, $2,000 in the account on Day 11 through Day 20 and $5,000 in the account on Day 21 through 30, your total daily balance is $100,000. Divide this number by the number of days in the bank statement period to determine your business's average daily balance. If there are 30 days in the bank statement period, your business's average daily balance is $3,333.33, or $100,000 divided by 30.

Calculating Interest

To calculate your interest for a bank statement period, banks typically use the formula (A / D) x (I / P). The first part of the formula, (A / D), calculates your business's average daily balance. The second part of the formula, (I / P), calculates the interest rate per bank statement period. If the annual interest rate on your business checking, savings or money market account is 2 percent and there are 12 bank statement periods in a year, the second half of the formula is (.02 / 12), or .0017. Multiply the $3,333.33 by .0017 to determine your interest for the monthly bank statement period, which is $5.67.

Certificate of Deposit

Typically, CD terms range from three months to six years, but interest payments depend on the bank and CD. Generally, short-term CDs, or those with terms a year or less, pay interest at maturity. Long-term CDs typically pay monthly, quarterly or semiannually. To determine the interest earned on a CD during a bank statement period, divide the annual interest rate by the number bank statement periods in a year. For example, if your bank pays 5 percent interest annually and there are 12 bank statement periods in a year, divide 5 percent by 12, which is 0.417 percent. Multiply this percentage by the balance of the CD. If the CD is worth $10,000, the interest earned for a monthly bank statement period is $41.70, or .00417 times $10,000.