

ALIGNING HEURISTICS WITH RATIONALITY FOR DEPICTING INFORMED FINANCIAL DECISIONS: STRATEGIC ROLE OF WOMEN ACCOUNTANTS

Abstract

The traditional accounting in the hands of accountants has paved the way for a judgmental decision making and accurate financial reporting with anchoring to the financial logic, rational accountability unlike heuristics supported mental accounting. Professionals can be the panacea in a judicious mix of the pros of hard-core accounting with the filtered concepts of mental accounting, keeping intact the ethical perspective. They can integrate the behavioral insights with the rigorous verification of MRL, the corner stone of audit credibility to promote ethical stewardship, transparency and strategic allocation of corporate resources. Today, the female accountants can play a pivotal role in upholding the financial integrity by demonstrating the psychologically informed and value driven decision making in various organizations.

Introduction:

It was 3000 BCE when the clay tablets recorded various inputs such as trade details, crop details and tax details though the tax was at its nascent stage of its development. The foundational structure of accounting gained prominence when Luca Pacioli, an Italian mathematician published Summa de Arithmetica, where the descriptions of double entry system of accounting was highlighted and still date the same continues in operation. The era known as “Early Modern Accounting” continued from 1500 to 1800 with growth of global trade practices, with the need for more detailed accounting in joint



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stock companies, with the launching of systemic taxation and treasury management by the Europeans and also began the concept of verification which in technical terms known as Auditing. It was felt in the then period that the independent accounts needed examination and scrutiny to arrest the errors in trading ventures. Gradually started the rapidity of industrialization with the simultaneous emergence of large-scale production, the need for developing the scales of efficiency and managing profitability, and above everything, the need for up-scaling the power of managerial decision making. The 20th and 21st century accounting has experienced a paradigm shift in terms of digitalization, convergence of accounting practices with other international bodies.

The core concept of traditional accounting rests on the goal of providing a true and fair view of financial position and performance where the vested interest comes from the business houses, creditors, investors, auditors and many such categories of stakeholders. This traditional accounting was under the supervision of the then male accountants, who were mainly professionals associated with different bodies, namely: the Institute of Chartered Accountants of India (ICAI), the Institute of Cost Accountants of India (ICMAI), who devised the standards for governing different classes of assets,

liabilities, expenses, and incomes, process of production and maintaining the levels of inventory. They ensure the compliance of financial reporting with IFRS, IND AS, and GAAP. They also ensure the smooth completion of the tasks of auditing and assurance, optimize the tax strategies, and also play a major role in the capacity of strategic leaders and advisory bodies. They can also contribute to maintaining ethical business transactions. Apart from the concept of the then traditional accounting, handled primarily by the male accountants, another branch of accounting also emerged during the 1980s in the name of mental accounting, which is non-quantifiable. It focuses on the perceptions of the individuals and households, women, and is driven by the principle of psychology and heuristics instead of GAAP/IFRS/IND AS. Mental accounting is not a shift from the concept of traditional accounting, but a branch of behavioral finance that tends to think differently in different situations while handling finance. The art of dealing with core accounting involves the principles of finance and mathematics and the latter is replaced with psychological traits in case of mental accounting. Today's accounting does not exclusively rest in the hands of the men, but also in the hands of women, whose firm financial attitude promotes an innate sense of discipline, sustainability, and ethical utilization of corporate or domestic resources:

Objective:

This paper will explore the strategic role of women accountants in the field of mental accounting.

Emergence of Mental Accounting

To begin the explanation, let us take an example of a transaction.

Mr. A receives ₹100 as a bonus income and ₹ 1000 as a salary income. The recipient will tend to splurge with the bonus income of ₹100, but would be frugal with his ₹1000 salary income, which shows the behavioral deviation and explains why people don't act with similar levels of rationality in their financial decision-making. The ways and means of treating with money is not dependent on any set of rules or structures but are more dominated by the laws of perception, behaviors and biases. Mental accounting is not subjective in nature and therefore can't be standardized and measured with arithmetical accuracy. It can't be aligned with some established

best practices, nor can it be judged on the basis of consistency, objectivity, and comparability. It is rather a psychological phenomenon. Hard-core accounting provides guidance notes, mandates, and disciplinary norms, and obviates the presentation as per the ethical framework, and firmly anchors all the stakeholders, but mental accounting does all these for the individuals at a cognitive level. Humans, across genders, are not perfectly rational, and their varied sense of rationality gets demonstrated in the process of handling finance. Women with their utmost intuitive and psychological traits can reinforce the behavioral dimension of finance along with sustainable economic governance.

Connection between Mental Accounting and the Role of Women Accountants

The whole gamut of hard-core accounting is nurtured in the hands of accountants but women accountants exercise behavioral prudence and embodies a convergence of typical technical accounting with ethical and inclusive decision making. Women can step forward to recognize the psychological biases in their financial behavior. Women rely more on subjective perceptions in contrast to the objective economic principles, and based on this, they can also categorize, evaluate, and allocate financial resources.

Connect between Women Accountants and Theory:

The image below shows the theoretical linkage between Mental Accounting and Women Accountants



Table No. 1: Role of Women Accountants in Mental Accounting Methods

Method	Role of Women Accountants
<p>Survey and Experiment Method:</p> <p>The survey results determine what would be the method to allocate the hypothetical amounts into mental accounts. For an example, if a researcher collects data from the employees and responses reveal that majority of the respondents are opting for the fact “Bonus amount is spendable then Propensity to spend value can be assigned in the process of accounting. It signifies that, unlike hard-core accounting, which rests on the premise of the guidelines, principles, mental accounting emphasizes on the survey results</p>	<p>Considering the above situation, accountants, while auditing the financial statements, can review the behavioral data collection methods with reference to sampling procedure, bias checks, and reliability of tools. Women Accountants can also examine the veracity of the reported perception-adjusted values and their process of retrieval. They can incorporate these figures in “Notes to accounts” as “Behavioral Value disclosure” in integrated accounts, along with ESG or CSR metrics, in the segment Management Discussion Analysis, as perceived value creation. Women Accountants use structured surveys to understand how the female employees allocate their proportional earnings towards savings and welfare, aligning a strategic balance between meaningful consumption and long-term financial stability</p>
<p>Behavioral Finance models:</p> <p>Individuals earn money and spend it in different ways. As per Prospect Theory, the perception varies across the minds, and the mental accounting is often triggered by the perception bias. The propensity to consume or spend depends on the context in which it is earned. A sum of ₹10000 earned as a salary has negligible emotional utility, in contrast with the same amount earned or received as a bonus income or windfall game would have a remarkable emotional utility and obvious tendency to spend.</p>	<p>Considering the above situation, the accountants can bring more clarity to the budget framework and liquidity projections by adjusting the probable cash outflows while drafting the rough budget. They can analyze and report the behavioral tendencies which influence the spending, investment and saving decision. Women Accountants can advise the management in redesigning the investment and or compensation structure, such as the earning from windfall game can be segmented as long-term investments instead of current period consumption. This effort will not only minimize the misuse of corporate resources but will also promote ethical financial stewardship. Women employees are more inclined to allocate income based on risk perception and welfare priorities.</p>
<p>Human Asset Valuation Method: Humans are treated as assets in the entities, irrespective of gender, as it is seen that the management and stakeholders do mentally account for or monetize the human values, though not reflected in the financial statements to date. Expenses incurred on employees towards training and development, retention, and compensation structure are formalized through the adoption of varied valuation methods, namely the Lev & Schwartz model, the Replacement model. Mental perceptions are translated into measurable figures with the alignment of psychological values (how and what people feel about the employees) with the financial recognition (how much the organization invests)</p>	<p>Though no countries attempted to disclose the financial values of human capital in balance sheet but disclosures are done at length in the financial reports. Countries like US, UK and European Unions are making more elaborated disclosure in comparison with India. Professional accountants can collaborate with the regulators like SEBI to develop sufficient and meaningful guidelines to recognize and disclose human capital value. They can promote voluntarily the human capital reporting by integrating behavioral and ethical accounting insights. They can advocate standardized valuation frameworks. Many companies failed to disclose the useful metrics namely employee welfare details, turnover details and resignation details and the disclosure is in the state of qualitative only and therefore the they can assure more complete and consistent disclosure by transforming the voluntary, non financial and narrative approach to more value oriented, standardized and integrated.</p> <p>The organizations must recognize the contributions of their employees as long-term assets but not as short-term costs. Women accountants can advocate ethically grounded human asset valuation by promoting the disclosure of gender inclusive human capital metrics</p>

<p>Consumers' perspective:</p> <p>The concept of mental accounting by Richard Thaler has brought to the light as how the segregation and positioning of finances take place by intersecting the psychology and finance. This psychological framing leads to the formation of biases as the financial decisions are irrational and inefficient. Humans as driven by the instincts of emotional anchoring, rely more on mental budgets to control their expenditure</p>	<p>Accountants can play a role in bridging the gap between psychological financial behavior and traditional accounting practices. They can guide consumers in setting actual financial goals, setting aside the impracticality and irrationality in determining the outlay. They can help the consumers to take a more informed, disciplined, and psychologically comfortable decision by providing adequate and timely financial advice. Women accountants, due to their calm and composed nature, can ensure more transparent and integrated financial reporting, by promoting the ethical and sustainable financial decision making.</p>
<p>Corporate decision making method: In this method, mental accounting shape how managers mentally segregate budgets, allocate resources, evaluate investments and assess departmental performance and that often leads to sub optimized or biased financial choices. There is a mismatch between budget allocation and prioritization of corporate resources. By virtue of mental accounting, the managers may overemphasize the funds allocated to a specific department or project, ignoring the cross-departmental resource use</p>	<p>Accountants need to ensure that mental categories do not distort the efficient and judicious allocation of resources. The budgets and performance can be designed in such a way that they can align the psychological comfort of the managers with objective efficiency. They can help to mitigate the biases in decision-making by guiding the managers in optimizing the fund utilization. Today's women accountants draw inferences from risk aversion and long-term orientation philosophy, and can mitigate the biases by focusing on realistic provisioning, efficient utilization of funds and welfare-specific budgeting.</p>

Migrating to Ethical Accounting

Mental Accounting can create a philosophical connection towards ethical accounting as the former becomes a tool within the latter, but not a substitute. It is a behavioral foundation that enhances ethical accounting by adding the perceptual, psychological transparency, and fairness to financial ethics. Women accountants can translate the subjective financial categorizations into transparent and rational accounting practices. They emphasize prudence, long-term stability, and stakeholder well-being, and together, they support integrity in financial disclosures. Ethical accounting is a transformation from psychologically driven financial behavior to ethics-driven behavior in accounting frameworks.

Hurdles faced by the Women Accountants:

The women are exposed to realities of hurdles in terms of deprivation in financial decision making, inclusive financial policies, access to mentorship, and many such gender specific biases that ultimately hinder organizational development. Women accountants, despite their countless efforts, often face structural and behavioral challenges that impede their professional growth and holistic development.

Realistic use cases of hurdles faced by Women Accountants

The table given below highlights the hurdles faced by women accountants in real-life scenarios.

Table No. 2: Use Cases

Case Type	Fact
Audit Committee Representation	Women accountants remain underrepresented in the Audit Committee and at the Board level advisory positions. This keeps them away from involvement in long-term decision-making.
ESG & welfare Budgeting	Suggestions from the women accountants with respect to budgetary allotment in case of maternity benefits, employee welfare, and diversity training under ESG initiatives often remain underutilized. These decisions are perceived as discretionary rather than futuristic.
Risk-Averse Investment Advisory	In profit maximization environments, decisions taken by women accountants towards contingency reserves, conservative investment strategies are mostly ignored as unviable.

Work-life balance constraints during Audit Cycles	Due to caregiving responsibilities, in most cases, the women accountants could not continue the assignment during peak and delayed audit cycles, and this affects their professional growth and development.
Human Capital Reporting	Due to the absence of a mandatory reporting framework, women accountants could not put forward their opinions to include gender pay equity disclosures, employee well-being metrics

Management Representation Letter (MRL) and Audit Challenges

MRL is a useful piece of audit evidence as per SA 580-Written Representations (Auditing & Assurance Standards, ICAI), which acknowledges that the information shared by the company's management is true, accurate, and in compliance with the accounting standards. Today's the auditors face challenges due to vague or non availability or delayed submission of MRL by the management of the client organization. This willful postponement or non-representation of the most important documents to the auditors weakens the quality of the audit report, enhances audit risk, and tarnishes the reputation of the audit committee. Auditors are compelled to execute the audit assignment even at the cost of available, ambiguous, and exaggerated information. Surprisingly, companies also provide the MRL to the audit team after the audit completion date and as a consequence the MRL omit some crucial disclosures such as contingent liabilities, pending litigations and related party transactions.

In practice, women accountants and auditors face the following barriers:

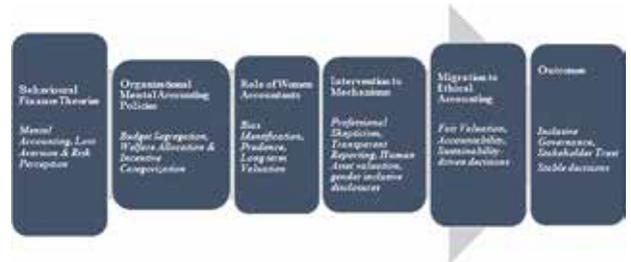
- ⊙ Communication Barrier
- ⊙ Authority undermining
- ⊙ Delayed documentation
- ⊙ Ethical Reporting Pressure

Situation where a woman auditor was penalized

In the case of Coffee Day Enterprises, the regulator, the National Financial Reporting Authority (NFRA), penalized the auditor for professional misconduct.

In this case, the auditor, Lavitha Shetty was banned from the audit assignment for ten years for lapses in Mysore Amalgamated Coffee Estate in 2019-20.

The role of Women Accountants in the context of mental accounting and ethical accounting is presented below in a flowchart



Conclusion:

The transformation of mental accounting into ethics-bound hard-core accounting becomes true and is clarified with the intervention of qualified women professionals. The professionals can translate perception-based accounting into a more improved, disclosure-driven presentation with rationality and undistorted financial data. Women accountants enable more sustainable financial reporting by identifying the cognitive biases in resource allocation. The integration of professional skepticism with welfare-specific insights supports fair valuation, inclusive disclosures, and stakeholder trust. Women accountants are not only financial custodians but also act as a catalyst who recalibrate perception-driven judgements into ethically resilient and sustainable futuristic decisions. **MA**

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