THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Behavioural Accounting: Adding Behavioral Aspect to Financial Accounting

Dr. Ashok Kumar Gupta
Associate Professor, Department of Commerce, PGDAV College, University of Delhi, India

Abstract:
Behavioural accounting owes its existence due to limitation of financial accounting. It incorporates human behaviour into financial accounting system. Its focus is on how human behavior affects and is affected by the accounting system and other financial decisions. The human behavior, accounting system, and organization structure are the important constituents of this discipline. It provides insights into the actual decision making processes in the organization. Behavioral accounting is much wider concept than merely valuation of human resource.

1. Introduction of Behavioral Accounting

Financial accounting is concerned with providing information to external users. It refers to for the prepration of general purpose reports for the use by persons inside and outside the business enterprise, such as shareholders existing and potentianl creditars, financial analysts, labour union, govrment authorities. Financial accounting is oriented towards prepration of financal statements which summarise the results of opertions for selected period and show the financial position at a particular date. Financial accounting is very significant for management as it helps them to direct and control the firms activities. It also helps the management in determining appropriate management policies in different areas such as production, sales and finance. [i]

System of Financial accounting has many limitations. One of the most serious limition of financial accounting is that its main concern is with numbers and it ignores the human factor. It's preccupation is with numbers. It has limited perspective. It does not go beyound the for prepration of financial statements. There are many important issues which are related with use of financial statements e.g the impact of financial information on decision makers, how the decision makers use the financial information, how the attitude of stake holders are affected by financial stetiments, more over what is a position of human resource into accounting information. These unadressed issues have led to the of development of behavioral accounting**.** [ii]

Behavioural Accounting is explanation and prediction of human behavioural in all possible accounting contexts e.g adequacy of disclosure, usefulness of financial statements, data attitudes about corporate reporting practices, materiality judgements and decision making procedures it refers to the accounting approach that stresses psychological considerations in decision making. For instance, a budget should be participative so that departmental managers who are involved with it will internalize the goals. Also profit centres should engage a manager's ego because the financial results of the entity are a direct reflection of the manager's performance. Moreover in this type of accounting a valuation is placed on people and reflected as an asset in the balance sheet. Behavioural Accounting may also refer to the theory that the management accounting function is essentially behavioural. The theory states that the nature and scope of accounting systems is materially influenced by the view of human behaviour that is held by the accountants who design and operate these systems. Participative budgeting is a simple application of behavioural accounting. [iii]

Behavioural accounting is concerned with relationship between accounting information and human behavioural. Behavioural accounting incorporates the human behavior into the accounting frame work. Behavioural accounting is human behavioural plus accounting. It considers how the human behavioural affects and is affected by the accounting information. Since this system provides importance to human behavioural, it is also concerned with the valuation of human factor, therefore it is also known as the human resource accounting. Some experts equate behavioural accounting with human resource accounting. This narrow perspective of the human resource accounting. [iv]

2. Behavioural Accounting as Valuation of Human Resource

Behavioural accounting as valuation of human resource is an accounting system which takes into account key decision makers as part of the value of a company. Behavioral accounting was developed to make the behavioral effects transparent to potential and current stakeholders. This is done to better understand the impact that business processes, opinions, and human variables have on the value of the overall corporation, now and in the future. In behavioral accounting the valuation of a company goes beyond the numbers and attempts to include the human factor.

Take the example of two companies, company ABC and DEF, which have identical financial statements. If ABC has a more experienced workforce, and stronger management than DEF then ABC should be worth more. Behavioural accounting attempts to measure and record this aspect of a business. Behavioural accounting is of particular interest to scholars due to the influence of time constraints, accountability, judgments, and motivations individual decision makers have. [v]

2.1. Aim and Purpose of Behavioural Accounting

The basic objective of behavioural accounting is to explain and predict human behavior in all accounting context and to relate human Behaviour, accounting information and problems. it challenges the concept of economic man because this concept of economic and rational man transforms human into economic subjects who are similar like robots and will rationally weigh advantage and disadvantage and rigidly pursue their own interest. It is high time that we move away from the narrow approach of economic man and develop more practical new frame work in accounting which concentrates on real people an and their behavior in actual settings behavioural accounting aims to develop such an accounting framework in the organization.

To be specific the main objectives of behavioural accounting are as follows:

1. To foster an understanding of those elements both cognitive and affective that influence the decision making process.
2. It aims to wider the horizon of accounting economic research: It aims to integrate methods used in behavioural science like experiments and empirical methods with accounting so that decision makers and their choices can be investigated.
3. To foster better decision making by firms, investors, company officers and accounting experts This perspective of accounting becomes important in view of financial collapse of various firms and flawed decision making by investors, company and accounting experts. behavioural accounting hopes to foster better decision making and a bridge the gap with other discipline by investigating how various cognitive and emotional factors may hinder or contribute to optimal decision making in accounting and other related fields.
4. Research into the factors that affect the accountants and non accountants while performing accounting function, writing, interpreting and using financial and non financial reports and information.
5. Promoting multi discipline study by relating behavioural psychology accounting structure and institutional efficacy.
6. Valuating the human resource of the organization to make the financial information more holistic balanced. [vi]

2.2. Areas of Behavioural Accounting

This system of accounting can utilize quantitative and qualitative multi discipline methodologies from business social science. This was not included in conventional accounting. The new approach uses the accounting methods that apply experimental research and laboratory experiment that offer alternative and nontraditional controversial prospective of accounting topics. Behavioural accounting now may encompasses the following areas:

- Individual judgement/decision making
- Group decision making
- Organizational behaviour
- Inter-organizational relationships
- Technology integration
- Strategic management/ organizational theory
- Theory development Theory review. [vii]

2.3. Basic Concepts in Behavioural Accounting

The concepts of behavioural accounting are very closely related with financial accounting. The key accounting concepts have been linked to behavioural accounting concepts are 1. Entirety concept and 2. Proprietary concept. These concepts are not founded on broadly accepted principles but as per the international financial reporting standards. Other common model which is used in this discipline is graphic accounting equitation which is based on profit and loss account, liabilities, equity and balance sheet.

Gynther reports that this discipline suffers from an ability to build a general theory on which to base the necessary lesser theory, events and operations and organization, therefore one is left with no option but to consider the theories which cannot be related or fitted to any one frame work of accounting in a logical manner. [viii]

2.4. Factors Affecting Behavioural Accounting

Factors affecting behavioural accounting are:

1. Administrative levels of company have big say in shaping behavioural accounting system.
2. Experience and motivation of decision makers, and
3. Information on right practices. [ix]

2.5. Limitation of Behavioural Accounting

This discipline suffers from much limitation

1. It mainly concentrates on attitudes of accounting and non accounting people which is very unstable concept.
2. There are no specified standards for behavioural accounting.
3. Valuation of human beings is very dehumanizing [x]

2.6. Conclusion

To conclude the chief goal of modern financial reporting is to supply useful information that can be used by both actual and potential investor and others with in their decision making framework. As the information processing agent are human beings, their attitudes behavioural are important factors f affecting decision making process. This is the point where behavioural accounting comes into picture.

Behavioural accounting integrates hanuman factor into accounting decision making process; it considers the behavior of accountants and non accountants as they are influenced and influence the accounting function and reports. No doubt this aspect of accounting is concerned and based on psychology and attitudes of decision makers which are often uncertain but it provide useful and realistic insights into decision making processes within accounting framework.

3. References

i. www.your articlelibrary.com
ii. www.accounting tools.com Behavioural Accounting : Concept & Meaning
iii. www.ventureline.com
iv. www.springer.com
v. www.investopedia.com
vi. www.behaviouralaccounting.com
vii. www.emeraldinsight.com
viii. www.inderscience.com
ix. www.springer.com
x. www.jstor.com