



Behavioural Accounting and Ethical Decision Making in Financial Reporting

Mr. Shubham Singh¹, Dr. Daleep Kumar ², Dr. Rohit Pandey³

¹Assistant Professor, Department of Commerce, J R D State University, Chitrakoot (UP)

²Assistant Professor, Faculty of Commerce & Management, J R D State University, Chitrakoot (UP)

³Assistant Professor, Department of Bachelor Business Administration, MSDU Azamgarh University (UP)

DOI : <https://doi.org/10.5281/zenodo.18646990>

ARTICLE DETAILS

Research Paper

Accepted: 24-01-2026

Published: 10-02-2026

Keywords:

*Behavioural Accounting,
Financial Reporting,
Ethics, Decision-Making,
Cognitive Biases*

ABSTRACT

Behavioural accounting focuses on understanding the psychological and emotional aspects that influence the actions and judgments of accountants, auditors, and other participants involved in the financial reporting process. Ethical decision-making forms an essential pillar of financial reporting because compliance with professional values and moral standards strengthens trust, transparency, and credibility. This study examines how behavioural factors, cognitive distortions, ethical dilemmas, and decision-making models interact within financial reporting practices. The paper further evaluates how awareness of these behavioural elements can enhance ethical behaviour and strengthen the reliability of reported financial information. The findings highlight that integrating behavioural insights into accounting practices not only supports moral accountability but also improves the authenticity and dependability of financial data for stakeholders.

Introduction

Financial reporting is a vital foundation of the business environment, as it provides stakeholders with structured information required to assess an organization's financial performance, position, and future prospects. Conventional accounting primarily emphasizes quantitative records, precision in measurement, and compliance with regulatory frameworks such as IFRS and GAAP. However, contemporary



accounting literature recognizes that financial reporting is not merely a technical exercise, but a process deeply influenced by human judgement, behavioural tendencies, and psychological influences.

Behavioural accounting integrates concepts from psychology, behavioural economics, sociology, and organizational behaviour in order to understand how individual perceptions, biases, beliefs, emotions, and social interactions shape financial decision-making. It acknowledges that the preparation and interpretation of financial information is affected by cognitive limitations, heuristics, and behavioural patterns rather than purely rational logic. Hence, behavioural accounting provides a broader analytical perspective on how managers, accountants, and auditors process information, evaluate outcomes, and make decisions that influence the quality of financial reporting.

This paper attempts to explore how behavioural accounting contributes to improving ethical decision-making and sustainable reporting in organizations. By highlighting behavioural dimensions, the study underscores how internal biases, organizational culture, and ethical reasoning collectively influence the transparency, reliability, and moral integrity of financial statements. Strengthening behavioural awareness in accounting practices, therefore, becomes crucial for enhancing long-term reporting credibility and fostering more responsible financial disclosure systems.

Key Concepts in Behavioural Accounting

Cognitive Biases: Financial decision-making is greatly impacted by cognitive biases such as confirmation bias, anchoring, and overconfidence. For example, financial statements may be skewed if management overestimate projected revenues or underestimate hazards.

Heuristics: Heuristics are mental shortcuts that make decision-making easier. Although helpful, they may lead to systematic mistakes in judgment. Heuristics may lead managers to depend on historical performance patterns in financial reporting without taking the state of the market into account.

Emotional Influences: Financial decisions can be influenced by emotions like fear, greed, or optimism, which can affect the reporting and interpretation of facts. For instance, pessimism may result in cautious financial reporting during recessions, which might influence investment choices.

Social and Cultural Factors: Financial reporting procedures can also be influenced by peer pressure, organisational culture, and society conventions. While an emphasis on ethics may enhance openness, a culture that places a higher priority on short-term benefits may encourage aggressive accounting techniques. The study of behavioural accounting examines how accountants and other financial



professionals in firms receive information, make decisions, and communicate with one another. By focusing on human factors rather than just technical procedures, it departs from traditional accounting.

Literature Review

Recent academic research indicates a significant rise in interest regarding the behavioural dimensions of accounting and their connection with the ethical quality of financial reporting. Scholars argue that behavioural accounting is distinct from traditional behaviourist accounting approaches, as it not only studies observable behaviour but also investigates underlying mental processes that drive professional judgment (Nowak, 2016). Shank (2023) further emphasizes that behavioural components such as cognitive biases, heuristic thinking, and emotional influences have far-reaching consequences on corporate governance, reporting accuracy, and market efficiency. Events such as the We Work and Boeing cases illustrate how psychological distortions and misaligned managerial perceptions can result in weak decision outcomes, governance failures, and large-scale economic losses.

Moreover, behavioural accounting research highlights that ethical orientation, organizational culture, and professional judgment significantly shape auditor and accountant behaviour (Arel et al., 2012). The increasing adoption of AI and automation in accounting also introduces both opportunities and challenges, as these technologies alter the decision-making environment and may reduce, shift, or sometimes intensify inherent biases (Warren et al., 2015). Further evidence suggests that reporting under IFRS standards influences behavioural patterns in managerial financial disclosures, thereby impacting how firms communicate economic reality (Ball, 2016). Studies also reveal anchoring effects in areas such as valuation and impairment assessment, illustrating how initial estimates distort final financial reporting judgments (Blay et al., 2018).

Research Objectives

1. To examine how psychological, emotional and cognitive factors influence the decisions of accountants, auditors and other stakeholders in financial reporting.
2. To analyse the significance of ethical decision-making in financial reporting and its impact on transparency and trust.
3. To identify the cognitive biases, moral dilemmas and decision-making frameworks that affect financial reporting practices.
4. To evaluate various approaches and techniques that can enhance ethical awareness and moral integrity



in financial reporting.

5. To contribute towards improving the reliability, credibility and sustainability of financial information through better ethical decision-making supported by behavioural accounting principles.

Behavioural Accounting in Financial Reporting

Behavioural accounting plays an important role in improving the quality and authenticity of financial reporting because it draws attention towards the human judgement that underlies financial statement preparation. Traditional financial reporting mainly focuses on measurement accuracy and compliance norms, whereas behavioural accounting emphasizes that personal beliefs, perception gaps, emotional reactions, professional experience and social influences significantly alter how information is analysed, interpreted and finally reported in the financial statements. Therefore, understanding behavioural tendencies enables organizations to strengthen reporting integrity beyond technical accounting rules. These are the impacts of Behavioural Accounting in Financial Reporting-

Influence on Financial Reporting Quality

Behavioural accounting enhances the depth of financial reporting by identifying hidden psychological distortions that affect financial judgement. When accountants are trained to assess their behavioural tendencies, they can evaluate information more objectively, reducing the possibility of misstatements, biased estimations and selective disclosure practices.

Reducing Biases in Financial Disclosure

By applying behavioural insights, financial professionals become more aware of common judgement traps such as anchoring, overconfidence, and selective information processing and risk misinterpretation. Awareness of such patterns allows them to adopt a more cautious and balanced approach while preparing statements, which results in reports that reflect economic reality more accurately.

Strengthening Accountability and Transparency

Behavioural accounting also encourages openness in reporting practices because it promotes ethical consideration along with analytical skill. When stakeholders understand the behavioural challenges influencing financial reporting, they develop higher trust in the reports issued by the organization. As a result, transparency improves, allowing investors, regulators and the public to assess the true financial condition of an enterprise more confidently.



Financial Sustainability

Financial sustainability refers to an organization's capacity to maintain stable financial performance and operational continuity over an extended period. It involves making balanced decisions on revenue generation, resource allocation, liquidity management and long-term value creation. Sustainable financial reporting ensures that present decisions do not negatively affect the organization's future financial position.

Impact of Behavioural Accounting on Sustainability

Behavioural accounting supports sustainability by providing deeper insight into how subjective thinking, risk behaviour and emotional judgement influence managerial decisions. When decision makers are aware of cognitive distortions, they become more capable of adopting financially responsible strategies rather than short-term opportunistic actions.

Improved Judgment and Strategic Choices

A behavioural lens makes managers more conscious of factors such as irrational optimism, excessive aggression in reporting, or fear-driven conservatism. Awareness of these behavioural elements results in rational and data-driven choices aligned with sustainable growth rather than reactive decisions based on temporary gains.

Risk Identification and Control

Behavioural accounting also assists in forecasting behavioural risk in financial planning. For example, by understanding biases such as overconfidence or anchoring, organizations can detect potential miscalculations early, leading to better governance and controlled risk exposure.

Stakeholder Trust and Credibility

Transparent reporting that acknowledges behavioural influences enhances investor confidence. Stakeholders are more willing to support organizations that demonstrate integrity, fairness, ethical accountability and long-term oriented financial discipline.



Strategic Planning

Integrating behavioural insights into strategic frameworks ensures that financial goals, ethical values and sustainability principles are all aligned. This results in decision-making that not only complies with standards but also supports organizational wellbeing in future periods.

Ethical decision-making in financial reporting refers to evaluating accounting choices based on moral principles, professional values and regulatory requirements to ensure correctness, fairness and transparency in financial disclosure. Ethical behaviour in reporting is essential for maintaining credibility, protecting investor interest, preserving organizational reputation and ensuring compliance with national and international accounting standards.

Moral Issues in Financial Reporting

Professionals often face ethical dilemmas while preparing financial statements. Some common ethical challenges include:

- **Earnings Manipulation:** altering figures to meet targets or influence stakeholder perception.
- **Fraudulent Disclosure:** intentionally presenting misleading or false financial results to conceal losses or distort financial health.
- **Conflict of Interest:** when personal benefits, pressure from management, or competitive interests influence professional truthfulness.

Ethical Theories Relevant to Financial Reporting

Different philosophical approaches can guide accountants in making sound moral decisions:

- **Utilitarian Approach:** Choosing actions that result in maximum overall benefit.
- **Deontological Ethics:** Focusing on duty, responsibilities and compliance with accounting laws.
- **Virtue Ethics:** Emphasizing personal moral character while performing professional tasks.
- **Professional Standards:** Compliance with IFRS / GAAP ensures uniformity, legitimacy and accuracy in reporting.



Corporate Governance and Ethical Practice

Effective corporate governance structures play a critical role in shaping ethical financial reporting practices. This includes:

- Clear ethical policies and disclosure norms
- Independent oversight from audit committees and boards
- Systems that support accountability, fair reporting and whistleblowing

When ethical decision-making is embedded within reporting systems, organizations are able to prevent misconduct, discourage manipulation, and support transparent communication of financial information.

Intersection of Behavioural Accounting and Ethical Decision Making

The intersection of behavioural accounting and ethical decision-making demonstrates how psychological factors and moral reasoning together influence financial reporting outcomes. Behavioural accounting reveals that accountants and managers are not purely rational decision-makers; their judgments are shaped by emotions, mental shortcuts, personal beliefs, and situational pressures. These behavioural tendencies can interfere with ethical clarity, leading to decisions that may appear technically compliant but lack ethical integrity.

Influence of Cognitive Biases on Ethical Judgement

Cognitive distortions such as self-serving bias, confirmation bias, and selective perception often reduce ethical sensitivity. When professionals unconsciously favour outcomes that benefit themselves or their organization, they may justify actions that compromise ethical reporting standards. This makes behavioural awareness essential in recognizing hidden motives behind reporting decisions.

Ethical Blindness

Ethical blind spots occur when individuals fail to perceive moral issues within a decision-making context. Excessive focus on performance targets, profit maximization, workload pressure or numerical compliance may overshadow moral considerations. As a result, reporting becomes mechanical, and the ethical dimension gets diluted.



Strengthening Ethical Practice through Behavioural Accounting

To minimize unethical behaviour and reduce bias, organizations can integrate behavioural training, ethical leadership, and structured decision models. Such reinforcement encourages professionals to evaluate decisions not only from a regulatory standpoint but also from a value-based and socially responsible perspective. Thus, acknowledging behavioural influence supports the development of more ethical, transparent, and responsible financial reporting practices.

Challenges in Application of Behavioural Accounting

1. Subjectivity and Complexity

Behavioural accounting requires an understanding of psychological elements that are difficult to quantify. Since biases, emotions, and perception vary among individuals, it becomes challenging to establish consistent measurement frameworks. This makes the integration of behavioural elements more complex than traditional rule-based accounting.

2. Organizational Resistance

Many organizations are deeply rooted in conventional financial reporting practices. They often consider behavioural elements as non-measurable, time-consuming, and impractical. Such resistance arises due to a lack of awareness, fear of increased reporting burden, and hesitation to move beyond numerical compliance.

3. Lack of Interdisciplinary Competence

Behavioural accounting demands cross-domain knowledge—psychology, behavioural finance, accounting standards, decision-making science etc. Many accountants have strong technical skills but limited exposure to behavioural sciences, which limits effective application.

4. Measurement Difficulty

Unlike financial numbers, behavioural influences are qualitative and subjective. Assigning value or impact levels to behavioural components is difficult, which restricts their integration into mainstream reporting frameworks.

Recommendations for Strengthening Behavioural Accounting Implementation

1. Capacity Building & Training



Continuous training programs should be conducted to improve understanding of behavioural tendencies, judgement traps, and ethical reasoning. Behavioural concepts must be added to professional development modules and accounting curricula.

2. Behavioural-Based Audits

Organizations can introduce behavioural review audits to identify hidden biases in reporting processes. These audits help detect patterns of overconfidence, excessive risk-taking, and emotional influence in financial decisions.

3. Integrated Reporting Structures

Companies should adopt integrated reporting models that combine financial, ethical, behavioural and qualitative parameters. This provides a more holistic view of organizational performance.

4. Stakeholder Engagement

Understanding behavioural tendencies of key stakeholders such as managers, investors, auditors, and regulators can improve communication relevance and decision transparency.

5. Ethical Reinforcement Mechanisms

Clear ethical guidelines, strong leadership ethics, regular workshops, and secure whistle blowing channels ensure that behavioural awareness is complemented with moral accountability and reporting discipline.

Conclusion

By addressing the psychological factors that affect decision-making, behavioural accounting provides a useful viewpoint on financial reporting. Organisations may increase the quality of their financial reports and strengthen their long-term financial sustainability by incorporating psychological, cognitive, and social variables into accounting procedures. Behavioural accounting provides significant insights into the human aspects of financial reporting. Making moral decisions based on behavioural principles is essential to maintaining public trust and the accuracy of financial data. To fully reap the rewards of behavioural accounting, however, issues including complexity, reluctance to change, and measurement hurdles must be resolved. Organisations may use behavioural accounting to promote more ethical, sustainable, and well-informed financial choices through training, behavioural audits, and stakeholder engagement. Examples of unethical actions that can have devastating consequences for stakeholders and enterprises



include financial reporting fraud and earnings management. By enhancing auditing standards and internal controls, supporting moral education that is tailored to real-world scenarios, and encouraging the use of decision-making models that take ethical and behavioural considerations into account, behavioural accounting insights are crucial for lowering these risks. Future research should look at how cutting-edge technology like artificial intelligence and behavioural accounting may be used to address moral conundrums in a rapidly evolving financial system. Behavioural accounting and ethical decision-making are critical to the reliability and quality of financial reporting. Organizations may strengthen stakeholder trust, accountability, and transparency by developing an ethical culture and understanding the psychological factors that drive decision-making. To guarantee their relevance in a changing financial context, future research should look into novel techniques to incorporating ethical concepts and behavioural insights into accounting procedures.

References

- Bazerman, M. H., & Moore, D. A. (2012). *Judgment in Managerial Decision Making*. Wiley.
- Blay, A. D., Kadous, K., & Sawers, K. (2018). Anchoring and adjustment bias in financial statement analysis. *Journal of Accounting Research*, 56(3), 759-794.
- FRC. (2019). *The Impact of Cognitive Biases on Financial Reporting: Understanding and Mitigating Behavioural Risks*. Financial Reporting Council.
- Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291.
- Nowak, M (2016). Behavioural accounting research-accounting research in the behavioural paradigm.
- Thaler, R. H. (2016). Behavioral Economics: Past, Present, and Future. *American Economic Review*, 106(7), 1577-1600.
- Trotman, K. T., Tan, H. T., & Ang, N. (2011). Fifty-year overview of judgment and decision-making research in Accounting. *Accounting & Finance*, 51(1), 278-360.
- Bazerman, M. H., & Moore, D. A. (2009). *Judgment in Managerial Decision Making*. Wiley.



- DeFond, M. L., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2-3), 275-326.
- Rest, J. R. (1986). *Moral Development: Advances in Research and Theory*. Praeger.
- Trompeter, G., Carpenter, T. D., Jones, K. L., & Riley, R. A. (2013). A synthesis of fraud- related research. *Auditing: A Journal of Practice & Theory*, 32(Supplement 1), 287-321.
- Abdel-Khalik, A. R. (2019). How Enron Used Accounting for Prepaid Commodity Swaps to Delay Bankruptcy for One Decade: The Shadowy Relationships With Big Banks. *Accounting Horizons*, 33(3), 1-21.
- Abdel-Khalik, A. R. (2007). An Empirical Analysis of CEO Risk Aversion and the Propensity to Smooth Earnings Volatility. *Journal of Accounting and Economics*, 44(1-2), 66-83.
- Lee, C. M. C., & Swaminathan, B. (2000). Price Momentum and Trading Volume. *The Journal of Finance*, 55(5), 2017-2069.
- Gupta, D. (2024). Ethics in Management Accounting: Examining the Role of Accountants in Ethical DecisionMaking. *International Journal of Research and Publications*. Retrieved from IJRPR.
- Daniel, R., Douglass, A., Kluetz, A., & Persellin, J. (2024). The Effect of Group Dynamics on Individual Ethical Decision
- Making. *Behavioral Research in Accounting*. Retrieved from AAA Publication