MENTAL ACCOUNTING AND ITS RELEVANCE AMONGST SALARIED EMPLOYEES

*GIRISH V

Research Scholar, JSS Research Foundation, Assistant Professor, P.E.S College of SAC, Mandya.

**MAMATHA. R

Assistant Professor, Department of MBA, Rajarajeshwari College of Engineering, Mysore Road, Bengaluru.

ABSTRACT

Mental Accounting tells that it works with the budgeting and labelling of expenditure. People use to make mental accounts as a way to manage and keep road of their spending and resources, but it's labelled as mental accounting recently. The present study has selected salaried employees working in different establishments of Mandya city. From each establishment, employees were randomly selected. The data have been collected from 80 respondents. To study the demographic profile of the respondents and to analyse relevance of mental accounting amongst salaried employees were objectives of the study. Primary data have been collected from salaried employees through structured questionnaire. Statistical tools like mean, standard deviation, correlation and one sample t-test for testing hypotheses and interpret the data to draw the conclusion. SPSS 20 version has been used to analyse the data. It is found that there is a relevance of mental accounting amongst salaried employees and worked mentally in deploying fund into different portfolios as it is evidenced by the p value (p<0.05) at 5% level of significance.

Keywords: Mental Accounting, Salary, Employees, Relevance.

INTRODUCTION

Mental Accounting is also called Psychological accounting which deals with describing the process where people code, categorize and measure economic results. Richard thaler called father of Mental Accounting tells that it works with the budgeting and labelling of expenditure. People use to make mental accounts as a way to manage and keep road of their spending and resources, but it's labelled as mental accounting recently. It is very essential to understand the flaws and inability of mental accounting to make effective financial decisions and reduce human errors.

While taking decisions on financial matters, people, individually act different. Regular salary, tax refunds, birthday money like a gift, Bonuses or Incentives, Safety capital, lottery winnings etc are situations where individuals act rationally and irrationally. It is believed that a man spends regular salary income carefully and bonus and incentives irrationally. In the light of this, the present study is carried out to check the existence of mental accounting amongst salaried employees.

REVIEW OF LITERATURE

Olsen et al. (2019) revealed that some taxpayers mentally segregate taxes from turnover while others do not. Also found small differences in mental accounting between income taxes and VAT. Mental accounting was not related to intentions of evading taxes, but individuals with higher mental accounting scores reported more pronounced levels of tax planning. Swacha and Solarz (2019) studied to identify and analyse the factors favouring the attitude of mental accounting in a wider sense. It was found that creating mental accounts helps organize personal finance and thus promotes achieving the goals of saving. Christoph Merkle et al. (2019) studied whether risk attitudes change after experiencing gains or losses. It found that subsequent risk taking is higher when outcomes remain unrealized and no evidence of a realization effect for non-positively skewed lotteries. Dianati et al. (2019) studied online value based decision making from the point of view of mental accounting theory. The results of the study have shown that perceived price and risk have a negative impact on the value parameters and the intention to buy internet shoppers. Oskan and Oskan (2020) opined that when multiple options are encountered, they are evaluated jointly- the results of different decisions are combined or evaluated separately. This depends on the emotional and intellectual structures of the person, along with the risk and expenditure criteria that the person undertakes.

RESEARCH GAP

Above reviewed research articles have not shown light on relevance of mental accounting amongst salaried employees of different institutions at mandya city. Hence the present study has been pursued.

SCOPE OF THE STUDY

The study has selected salaried employees working in different establishments of Mandya city. From each establishment, employees were randomly selected. All age group of employees (respondents) are given equal importance while collecting the data.

RESEARCH QUESTIONS

The deliberate has the following researchable questions.
   a) What are the demographic profiles of respondents?
   b) Is there any relevance of mental accounting amongst salaried employees?

OBJECTIVES OF THE STUDY

The study follows following specific objectives.
   a) To study the demographic profile of the respondents
   b) To analyse relevance of mental accounting amongst salaried employees

RESEARCH HYPOTHESIS

    H= "Relevance of mental accounting amongst salaried employees**"**

RESEARCH METHODOLOGY

Sample Design: the study has population of salaried employees working in different establishments at mandya city. Simple Random Sampling procedure has been used for collecting the primary data. Sampling area has been restricted to mandya city only. The data have been collected from 80 respondents.

Sources of Data: Both Primary and Secondary data have been used in the study. Primary data have been collected from salaried employees designated in different establishments at mandya city. A tool of Google form has been used to record the response. The primary data have been collected through structured questionnaire and totally 150 questionnaires were administered to the salaried employees in government or private or semi government institutions. But 80 respondents were above to respond the questionnaire with the response rate of 53.33%. Secondary data have been collected through journals, newspapers, magazines, text books to review the literatures and understand theoretical background.

Statistical tools and techniques: the study has used suitable statistical techniques such as frequency and simple percentages for analyzing demographic data. Mean, standard deviation, correlation and one sample t-test for testing hypotheses and interpret the data to draw the conclusion. SPSS 20 version has been used.
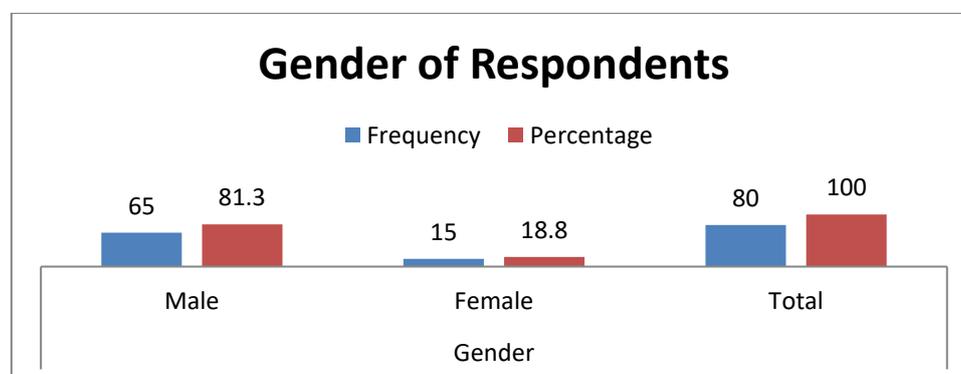
RESULTS AND DISCUSSION

Demographic Data: the demographic variables such as Gender, Nature of Job, and Monthly salary are very important. The following tables show demographic profile of respondents.

TableNo.1: showing Gender of Respondents

| Particulars		Frequency	Percentage
Gender	Male	65	81.3
	Female	15	18.8
	Total	**80**	**100.0**

Sources: Primary Data

The above table and chart shows the gender of respondents. Majority of them (81.3%) are male salaried employees and 18.8% of them are females. It shows male respondents have shown intense interest answering the questionnaire.

Table No.2: showing Nature of Job of Respondents belonging

| Particulars		Frequency	Percentage
Nature of Job	Government	16	20.0
	Private	56	70.0
	Semi-Government	8	10.0
	Total	**80**	**100.0**

Sources: Primary Data
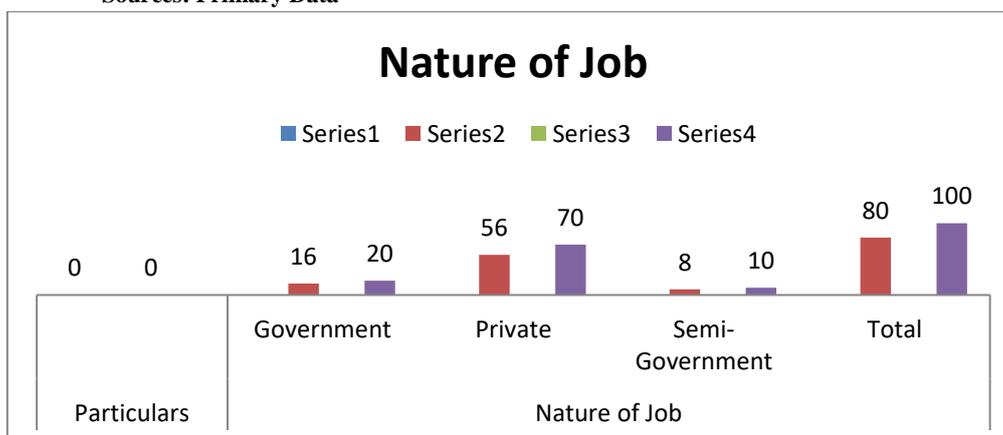
The above table and chart shows the nature of job of respondents belonging. Majority of them (70%) are belonging to Private jobs, 20% of them are Government employees and rest 10% of them are working in semi government establishments.

Table No.3: showing Monthly Salary of Respondents

Particulars		Frequency	Percentage
Monthly Salary	Below ₹10,000	12	15.0
	above ₹10,000 Below ₹20,000	16	20.0
	Above ₹20,000 Below ₹30,000	28	35.0
	Above ₹30,000	24	30.0
	Total	**80**	**100.0**

Sources: Primary Data
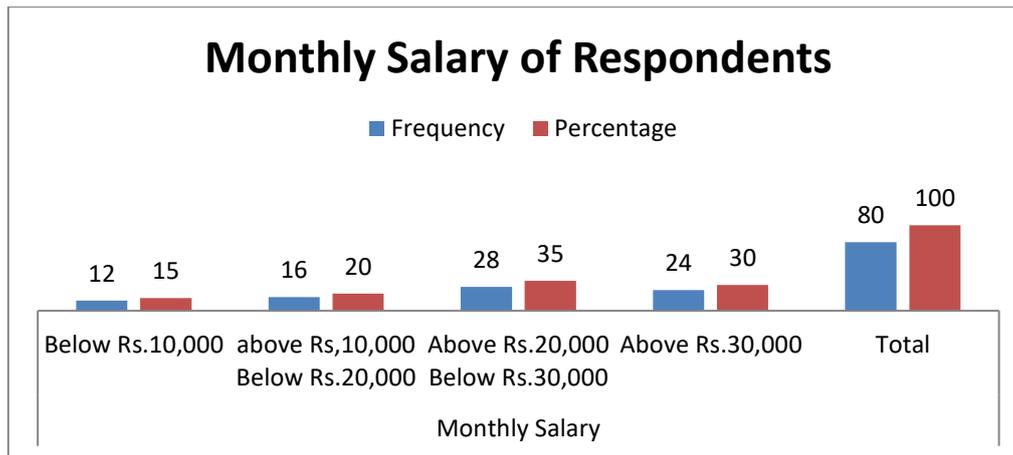
The above table and chart shows the monthly salary of respondents. Majority (35%) of the respondents are drawing salary above ₹20,000 and below ₹30,000, 30% of them are drawing above ₹30,000, 20% of them are drawing above ₹10,000 and below ₹20,000 and last 15% of them are drawing below ₹10,000.

Testing of Hypotheses: For the purpose of testing, the following null and alternative hypotheses are formulated.

Ho= **"There is no relevance of mental accounting amongst salaried employees"**

H1= **"There is relevance of mental accounting amongst salaried employees"**

Table No.4: Result of One Sample t-test with respect to relevance of mental accounting amongst salaried employees

Variables	N	One Sample Statistics		t-statistic	P-Value
		Mean	**SD**		
a) Individual tend to mentally allocated their current and future wealth into non- transferable separate compartments	80	1.8250	.38236	42.690	.000
b) A special fund is set aside for a vacation or a new house, while still having a debt borrowed	80	1.8000	.40252	39.997	.000
c) Money in the special fund is being treated differently from the money that is	80	1.7375	.44277	35.099	.000

using to pay down your debt					
d) People may feel that money saved for a new house or their children's education is too "important"	80	1.7250	.44933	34.337	.000
e) As a result, this (special fund) 'important" account should not be touched at all, even if doing so would provide added financial benefit	80	1.7625	.42824	36.812	.000
f) People tend to spend a lot more "found" money, such as bonuses and gifts, compared to a similar amount of money that is normally expected	80	1.7875	1.12164	14.254	.000

Sources: Primary Data

Table 4 shows the variables which influences relevance of mental accounting amongst salaried employees in the city of Mandya. From the study, it is observed that mean value of all the above variables is less than 2 (average of 5 rating scale) and it indicates that the respondents opinions are moving from agree to strongly agree to the said variables and calculated standard deviation is inferred that there is less deviation in the opinion of the salaried employees. The one sample t-test was used to analyse the opinion. From the study, it is cleared that since calculated p-value for all the variables like Individual tend to mentally allocated their current and future wealth into non- transferable separate compartments, a special fund is set aside for a vacation or a new house, while still having a debt borrowed, Money in the special fund is being treated differently from the money that is using to pay down your debt, People may feel that money saved for a new house or their childrens' education is too "important", as a result, this (special fund) 'important" account should not be touched at all, even if doing so would provide added financial benefit, People tend to spend a lot more "found" money, such as bonuses and gifts, compared to a similar amount of money that is normally expected found less than 0.05 at 5% level of significance. Hence it can be

inferred that the alternative hypothesis stating, **"There is relevance of mental accounting amongst salaried employees"** is accepted and the null hypothesis is rejected.

FINDINGS OF THE STUDY

It is found that people tend to mentally allocate their current and future wealth into non-transferable separate compartments, a special fund is set aside for a special vacation and this fund should not be touched. It shows that people mentally allocate their sources into future compartments to meet their planned or unexpected moments. In the study, the important variables used to check the relevance of mental accounting amongst salaried employees designated in different establishments at mandya city are considered the real attributes for relevance of mental accounting amongst salaried employees as it is evidenced by the p value ($p<0.05$) at 5% level of significance.

CONCLUSION

Salaried employees are best examples to check the relevance and existence of mental accounting. They calculate their source of salary and allocate it for different compartments. Compartments might be short term or long term commitments. Their regular salary, bonus, incentives etc will have significant influence one's own emotions and expended accordingly. The study is concluded that there is a relevance of mental accounting amongst salaried employees and works mentally in deploying fund into different portfolios.

REFERENCES

- Dianati, D. Z., Balooti, E., & Darvand, R. (2019). Value-Driven Internet Shopping: The Mental Accounting Theory Perspective (case study: Diji Kala).
- Goldberg, J., Von Nitzsch, R., & Morris, A. (2001). *Behavioral finance*. Chichester: John Wiley.
- Merkle, C., Müller-Dethard, J., & Weber, M. (2019). Closing a mental account: The realization effect for gains and losses. *Available at SSRN 3189076*.
- Olsen, J., Kasper, M., Kogler, C., Muehlbacher, S., & Kirchler, E. (2019). Mental accounting of income tax and value added tax among self-employed business owners. *Journal of Economic Psychology*, *70*, 125-139.
- Ozkan, M., & Ozkan, O. (2020). Financial evaluation of mental accounting.
- Ritter, J. R. (2003). Behavioral finance. *Pacific-Basin finance journal*, *11*(4), 429-437.
- Singh, S. (2012). Investor irrationality and self-defeating behavior: Insights from behavioral finance. *Journal of Global Business Management*, *8*(1), 116.
- Seiler, M. J., Seiler, V. L., & Lane, M. A. (2012). Mental accounting and false reference points in real estate investment decision making. *Journal of Behavioral finance*, *13*(1), 17-26.
- Swacha-Lech, M., & Solarz, M. (2019). Mental accounting in the context of savings and credit decisions. Evidence from Poland.