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Influence of Mental Accounting and Expense Framing on Everyday Financial Decision-Making among Working Professionals

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Abstract:

Financial decision making in everyday life is often influenced by psychological factors rather than complete rationality, as assumed in traditional finance theories. Drawing on behavioural finance, the present study examines the influence of mental accounting on everyday financial decisions among working professionals, with particular emphasis on the role of expense framing. Using a quantitative research design, primary data were collected from 120 working professionals through a structured questionnaire. Mental accounting, expense framing, and everyday financial decisions were measured using Likert-scale items. The data were analysed using descriptive statistics, correlation analysis, and multiple regression techniques with the aid of JASP software. The findings reveal that mental accounting and expense framing are positively and significantly associated with everyday financial decision-making. Regression results further indicate that both variables jointly explain a substantial proportion of variance in financial decisions, with mental accounting emerging as the stronger predictor. The study highlights the relevance of behavioural factors in shaping routine financial choices and contributes empirical evidence to the growing literature on behavioural finance.

Keywords: Mental accounting, Expense framing, Behavioural finance, Financial decision making.

1. Introduction

Traditional finance theories assumes that individuals are fully rational and make decisions solely to maximize utility. However, real-world financial behaviour often deviates from these assumptions, this leads to the development of behavioural finance. Behavioural finance is a combination of both psychology and economics, which aims to explain how cognitive biases, heuristics, and mental shortcuts influence the financial decision-making. One of the most influential branches of this is mental accounting. The term was first introduced by Richard Thaler, which explains the tendency of individuals to classify financial outcomes. This classifies financial outcomes into separate categories, which shapes how individuals perceive and manage income and expenses in their daily financial decisions. This affects how individuals perceive their income, expenses, savings, and investment, often leading to suboptimal financial decisions. For instance, even when economic justification lacks, people may treat bonuses differently from regular income or maintain separate budgets for discretionary and essential expenses. These mental shortcuts shape everyday financial decisions such as spending, savings, etc., particularly among working professionals who regularly manage multiple income sources and also have many expenditure obligations.

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One of the important mechanism through which mental accounting influence the financial behaviour of individuals is expense framing. Expense framing refers to how individuals interpret and categorize expenses based on its context, purpose or source. This can change the perceived value, necessity and affordability, thereby affecting spending behaviour and financial judgement. Prior behavioural research suggests that the way expenses are framed can either reinforce or weaken the effects of mental accounting on financial decisions.

Despite the growing importance in behavioural finance, limited empirical research has examined the mediating role of expense framing in the relationship between mental accounting and everyday financial decisions, particularly among working professionals. Understanding this relationship is critical because working professionals play a key a role in household financial stability and long term economic well-being. Therefore, the present study aims to understand how mental accounting influences the everyday financial decisions and whether expense framing acts as a mediating mechanism in this relationship.

Objectives

- To examine the extent to which working professionals exhibit mental accounting behaviour in their everyday financial decisions.
- To analyse the relationship between mental accounting and expense framing among working professionals.
- To assess the influence of mental accounting and expense framing on everyday financial decision-making.
- To evaluate the combined predictive effect of mental accounting and expense framing on everyday financial decisions among working professionals.

Hypotheses

H1: Mental accounting has a significant influence on everyday financial decisions among working professionals.

H2: Mental accounting is significantly associated with expense framing among working professionals.

H3: Expense framing has a significant influence on everyday financial decisions among working professionals.

H4: Mental accounting and expense framing together significantly predict everyday financial decisions among working professionals.

2. Literature Review

Earlier Studies on Mental Accounting and Financial Decision Making

Early research on mental accounting emerged from the broader field of behavioural decision-making, which questioned the assumption of full rationality in classical economic theory. Kahneman and

Tversky (1979), through prospect theory, demonstrated that individuals evaluate financial outcomes relative to reference points and exhibit asymmetric attitudes toward gains and losses. This work provided the psychological foundation for understanding why individuals process financial outcomes differently depending on context.

Building on this framework, Tversky and Kahneman (1981) introduced the concept of framing effects, showing that individuals' choices vary based on how identical information is presented. Their findings highlighted that decision-making is sensitive to contextual presentation, which later became central to understanding financial behaviour beyond purely economic reasoning.

The concept of mental accounting was formally articulated by Thaler (1985), who described it as the cognitive process through which individuals categorize and evaluate financial outcomes in separate mental accounts. Thaler argued that individuals treat money as non-fungible, leading to systematic deviations from rational economic behavior. His work explained why individuals maintain separate budgets for different types of income and expenses, even when such separation lacks economic justification.

Thaler (1999) further consolidated mental accounting as a key concept in behavioural finance, emphasizing its role in budgeting, self-control, and everyday financial decision-making. Subsequent work by Shefrin and Thaler (2004) integrated mental accounting with self-control theory, suggesting that mental accounts function as psychological tools to regulate spending and saving behaviour.

Overall, earlier studies firmly established mental accounting as a robust theoretical framework explaining how individuals classify financial outcomes and make decisions within those classifications. These foundational studies provide the conceptual basis for examining more recent empirical work on contextual mechanisms such as expense framing and their influence on everyday financial decisions.

Latest Studies

In recent years, research on mental accounting has expanded beyond conceptual explanations to empirically examine how cognitive categorization influences everyday financial behavior in real-world contexts. Post-2020 studies increasingly focus on expenditure framing, payment modes, budgeting discipline, and behavioral self-control, reinforcing the relevance of mental accounting in daily financial decisions.

One of the notable developments is the renewed empirical attention to how individuals treat different sources and uses of money as psychologically distinct. Gelman and Roussanov (2024), in a large-scale empirical study published *in The Review of Financial Studies,* demonstrated that consumers systematically separate expenditures based on payment instruments such as cash, debit cards, and credit cards. Their findings provide strong evidence that mental accounting affects consumption smoothing and spending intensity, even when economic resources are objectively fungible.

Systematic consolidation of recent evidence has also emerged. Darwin (2024), through a structured literature review, synthesised contemporary findings and concluded that mental accounting functions as a behavioural tool for financial self-control, particularly in budgeting, saving, and expenditure restraint. The review emphasised that mental accounting remains highly relevant in modern financial environments characterised by digital payments and flexible spending options.

Survey-based studies have further demonstrated the applicability of mental accounting across professional groups. Zainudin, Hariyanto, and Safitri (2024) examined teachers' financial behaviour and found that mental accounting significantly predicted budgeting discipline and spending control, even after accounting for financial literacy and lifestyle factors. This suggests that mental accounting operates independently of formal financial knowledge.

Similarly, Seena and Kumar (2024) employed vignette-based scenarios to test the existence of mental accounting processes in individual decision-making. Their results confirmed that respondents evaluated identical financial outcomes differently depending on expense categorisation and framing, reinforcing the behavioural consistency of mental accounting effects.

3. Research Methodology

Research Design

The present study adopted a quantitative research design to examine the influence of mental accounting on everyday financial decisions, with expense framing considered as an explanatory variable. A cross-sectional approach was used, as data were collected from respondents at a single point in time. This design is appropriate for identifying relationships among behavioral finance variables using statistical analysis.

Population and Sample

The study was conducted among working professionals from various occupational backgrounds. A convenience sampling technique was employed due to ease of access and time constraints. A total of 120 valid responses were collected and used for analysis, which is sufficient for correlation and multiple regression analysis.

Data Collection Instrument

Primary data were collected using a structured questionnaire designed specifically for the study. The questionnaire consisted of statements related to mental accounting behavior, expense framing perceptions, and everyday financial decision-making. Respondents were asked to indicate their level of agreement with each statement.

Measurement Scale

All variables were measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

- **Mental Accounting (MA)** was measured using five items (MA1–MA5).
- **Expense Framing (EF)** was measured using five items (EF1–EF5).
- **Everyday Financial Decisions (FD)** was measured using five items (FD1–FD5).

Higher scores indicated a stronger presence of the respective behavioral trait.

Reliability Analysis

The reliability of the measurement scales was assessed using Cronbach's alpha. The results indicated high internal consistency for all three constructs, with alpha values exceeding the acceptable threshold

of 0.70. This confirms that the items used to measure mental accounting, expense framing, and financial decision-making were reliable and suitable for further statistical analysis.

Data Analysis

Data analysis was carried out using **JASP software**. The analysis involved multiple stages:

- **Descriptive statistics** were used to summarize the responses and understand the general pattern of the data.
- **Correlation analysis** was conducted to examine the relationships among mental accounting, expense framing, and everyday financial decisions.
- **Multiple regression analysis** was performed to assess the combined and individual effects of mental accounting and expense framing on everyday financial decisions.

4. Data Analysis and Interpretation

Table 1 Descriptive Statistics

Variable Code	Mean	Std. Deviation	Minimum	Maximum
MA1	3.225	0.965	1	5
MA2	3.175	0.941	1	5
MA3	3.167	1.024	1	5
MA4	3.183	0.987	1	5
MA5	3.242	0.996	1	5
EF1	3.067	1.059	1	5
EF2	3.092	1.021	1	5
EF3	3.042	1.007	1	5
EF4	3.167	1.032	1	5
EF5	3.058	0.990	1	5
FD1	3.100	0.929	1	5
FD2	3.092	0.970	1	5
FD3	3.125	0.940	1	5
FD4	3.092	0.944	1	5
FD5	3.108	0.951	1	5

Interpretation

The descriptive statistics indicate that the **mean values of all items range between approximately 3.04 and 3.24**, suggesting a **moderate level of agreement** among respondents across all constructs. This implies that respondents neither strongly disagreed nor strongly agreed with the statements, reflecting balanced and realistic behavioural responses.

The **standard deviation values**, which range from approximately **0.93 to 1.06**, indicate an acceptable level of variability in responses. This suggests that while respondents differed in their perceptions and behaviours, the responses were not excessively dispersed.

The minimum and maximum values for all items range from **1 to 5,** confirming that respondents utilized the full range of the Likert scale. This indicates good response variability and supports the suitability of the data for further inferential analysis.

Overall, the descriptive results show that **mental accounting behaviour, expense framing tendencies, and everyday financial decision-making are present at moderate levels among respondents**, providing a sound foundation for subsequent reliability, correlation, and regression analyses.

Table 2 Reliability Analysis

Construct	Number of Items	Cronbach's Alpha
Mental Accounting (MA)	5	0.940
Expense Framing (EF)	5	0.940
Everyday Financial Decisions (FD)	5	0.927

Interpretation

The reliability results indicate **excellent internal consistency** for all three constructs used in the study. The Cronbach's alpha value for **Mental Accounting** is 0.940, while **Expense Framing** also exhibits a high reliability coefficient of 0.940. Similarly, **Everyday Financial Decisions** shows a strong reliability value of 0.927.

All alpha values exceed the recommended threshold of **0.70,** confirming that the items within each construct are highly consistent in measuring the same underlying concept. These results demonstrate that the questionnaire is reliable and suitable for further statistical analysis, including correlation and regression.

Table 3 Correlation Analysis

Variables	Mental Accounting	Expense Framing	Financial Decisions
Mental Accounting	1.000	0.631	0.606
Expense Framing	0.631	1.000	0.593
Financial Decisions	0.606	0.593	1.000

Interpretation

The correlation analysis reveals positive and statistically significant relationships among all the study variables.

Mental Accounting shows a strong positive association with Expense Framing ($r = 0.631$), indicating that individuals who actively categorize and manage their finances are more likely to perceive expenses through framing effects. Mental Accounting is also positively related to Everyday Financial Decisions ($r = 0.606$), suggesting that stronger mental accounting behaviour is associated with more structured financial decision-making.

Expense Framing is positively correlated with Everyday Financial Decisions (r = 0.593), implying that the way expenses are presented or interpreted significantly influences routine financial choices. The strength of these correlations supports the theoretical assumptions of the study and provides justification for conducting regression analysis to examine causal influence.

Table 4 Multiple Regression Analysis.

- **Dependent Variable:** Everyday Financial Decisions (FD)
- **Independent Variables:**
    - Mental Accounting (MA)
    - Expense Framing (EF)

R	R^2	Adjusted R^2	RMSE
0.664	0.441	0.431	0.628

Interpretation

The model summary indicates that the independent variables explain 44.1% of the variance in everyday financial decisions ($R^2 = 0.441$). This suggests that mental accounting and expense framing together provide a meaningful explanation of financial decision-making behavior among working professionals. The adjusted R^2 value of 0.431 confirms the robustness of the model after accounting for the number of predictors.

ANOVA Results

Source	df	F	p
Regression	2	46.12	< .001
Residual	117		
Total	119		

Interpretation

The ANOVA results show that the overall regression model is statistically significant ($F = 46.12$, $p < 0.001$). This confirms that the independent variables, when considered together, significantly predict everyday financial decisions.

Regression Coefficients

Predictor	Unstandardized B	Standardized β	t	p
Mental Accounting	0.363	0.385	4.320	< .001
Expense Framing	0.318	0.350	3.932	< .001

Interpretation

The regression coefficients indicate that both predictors have a positive and statistically significant effect on everyday financial decisions.

Mental Accounting shows a stronger influence (β = 0.385), suggesting that individuals who actively organize and categorize their finances tend to make more deliberate and informed financial decisions. Expense Framing also significantly influences financial decisions (β = 0.350), indicating that the way expenses are framed or perceived plays an important role in shaping routine financial choices.

Comparatively, mental accounting emerges as the stronger predictor, although both variables contribute meaningfully to the model.

The results of the regression analysis confirm that mental accounting and expense framing significantly influence everyday financial decision-making. Together, these behavioural factors explain a substantial proportion of variance in financial decisions among working professionals, supporting the theoretical assumptions of the study.

Discussion

The present study examined the influence of mental accounting on everyday financial decisions, with expense framing considered as an explanatory factor among working professionals. The findings provide meaningful insights into how behavioural finance concepts operate in routine financial decision-making.

The descriptive analysis revealed moderate mean scores across all variables, indicating that respondents generally exhibit a balanced level of mental accounting behaviour, sensitivity to expense framing, and structured financial decision-making. This suggests that working professionals actively engage with financial information rather than behaving impulsively, which aligns with behavioural finance theories emphasizing cognitive involvement in financial choices.

The reliability analysis demonstrated high internal consistency for all constructs, confirming that the measurement items effectively captured the underlying behavioural dimensions. The strong reliability values reinforce the credibility of the results and ensure that the observed relationships are not due to measurement error.

The correlation analysis showed significant positive relationships among mental accounting, expense framing, and everyday financial decisions. The positive association between mental accounting and expense framing indicates that individuals who mentally categorize their finances are more likely to interpret expenses based on how they are presented. Additionally, the strong correlations between both mental accounting and expense framing with financial decisions suggest that behavioural biases play a substantial role in shaping routine financial choices.

The multiple regression results further confirmed these relationships by demonstrating that both mental accounting and expense framing significantly predict everyday financial decisions. Mental accounting emerged as the stronger predictor, highlighting its central role in influencing how individuals allocate resources, evaluate expenses, and make routine financial decisions. Expense framing also showed a significant effect, indicating that contextual presentation of expenses can alter financial behaviour even among working professionals.

Overall, the findings support the core propositions of behavioural finance theory, particularly the notion that individuals do not always behave in a fully rational manner when making financial

decisions. Instead, cognitive processes such as mental categorization and framing significantly shape financial outcomes

5. Conclusion

The present study examined the influence of mental accounting and expense framing on financial decision-making. The findings indicate that both mental accounting and expense framing have a statistically significant and positive impact on financial decisions. This suggests that individuals psychological categorization of money and the way expenses are presented meaningfully shape how financial choices are made.

The results highlight the importance of behavioural factors in understanding financial decision-making, beyond traditional economic assumptions of complete rationality. By demonstrating the predictive role of mental accounting and expense framing, the study reinforces the relevance of behavioural finance concepts in explaining real-world financial behaviour. Overall, the study contributes empirical evidence that cognitive and framing effects are critical determinants of financial decision outcomes.

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