

Reflecting on Accounting Research in Derivatives and Prospects for Future Endeavors

Fauler Land*

Department of Economics, University of Faisalabad, Faisalabad, Pakistan

Abstract

Derivatives have been integral financial instruments in global markets for several decades, with accounting research playing a pivotal role in unravelling their intricacies and consequences. This article offers an overview of historical accounting research pertaining to derivatives and provides recommendations for future investigations aimed at addressing evolving challenges and innovations. The realms of accounting research discussed encompass financial accounting, managerial accounting, auditing and assurance, taxation, accounting information systems, and ethics and professionalism. Valuation and measurement have emerged as central themes in research endeavours, with studies probing the realms of fair value measurement, hedge accounting standards, and disclosure practices. Moreover, research initiatives have delved into the ramifications of derivatives on financial reporting quality and fluctuations in earnings. In the wake of changing financial landscapes, future research should shift its focus towards emerging financial instruments, such as crypto currency derivatives and carbon emission derivatives. Simultaneously, there's a need to scrutinize the efficacy of hedge accounting models and evaluate the systemic risk implications associated with derivatives.

Keywords: Managerial accounting • Crypto currency • Financial accounting

Introduction

Derivatives have been a prominent financial instrument in global markets for several decades, playing a crucial role in managing risks and hedging strategies. Accounting for derivatives has been a subject of extensive research, exploring various aspects such as valuation, disclosure, effectiveness testing and the impact on financial reporting. This article reflects on the past accounting research on derivatives and provides recommendations for future studies to address emerging challenges and advancements in this field. Accounting research refers to the systematic investigation and study of accounting principles, practices, methods and issues. It aims to expand knowledge in the field of accounting, address gaps in existing knowledge and provide insights that can contribute to the development of accounting theory, standards and practices. Research in financial accounting focuses on issues related to the preparation, presentation and interpretation of financial statements [1].

Literature Review

Derivatives have held a prominent position as financial instruments in the global markets for numerous decades, serving as pivotal tools for risk management and hedging strategies. The accounting treatment of derivatives has attracted extensive research attention, encompassing various dimensions such as valuation, disclosure, effectiveness assessment, and their repercussions on financial reporting. This article offers a retrospective examination of the extensive accounting research history concerning derivatives, accompanied by recommendations for future inquiries designed to address emerging challenges and advancements in this specialized field. Accounting research, in its essence, denotes the systematic exploration and

scrutiny of accounting principles, practices, methodologies, and pertinent issues. Its overarching objective is to advance the body of knowledge within the domain of accounting, bridging existing knowledge gaps and providing insights that can contribute to the evolution of accounting theory, standards, and practices. Within the realm of financial accounting, research is primarily concerned with issues related to the formulation, presentation, and interpretation of financial statements [2].

Discussion

Research has delved into the efficacy of hedge accounting standards, such as FASB's ASC 815 and IFRS 9, in accurately representing the underlying economic dynamics of hedging relationships. These investigations have probed the hurdles confronted by businesses in adhering to hedge accounting prerequisites and scrutinized the effects of hedge accounting on the portrayal of financial statements. Accounting research has further scrutinized the disclosure practices linked to derivatives, with the objective of amplifying transparency and offering stakeholders pertinent data to gauge risk exposures. This research has examined the quality and intelligibility of derivative disclosures, the influence of regulatory modifications on disclosure protocols, and the sway of derivatives on a firm's risk profiles. Exploratory studies have also ventured into the consequences of derivatives on the quality of financial reporting and the variability in earnings. Researchers have explored the correlations between the utilization of derivatives and corporate performance, the impact of derivatives on the management of earnings, and the role of derivatives in financial crises. In the future, research endeavors should shift their focus towards the accounting implications associated with emerging financial instruments like cryptocurrency derivatives, carbon emission derivatives, and other innovative derivatives. Investigating the valuation, measurement, and disclosure challenges inherent in these instruments will furnish valuable insights into adapting accounting standards to align with evolving market practices [3,4].

Further research endeavours may delve into the efficacy of hedge accounting models in accurately capturing the objectives of risk management. These investigations could explore the alignment between accounting requisites and the practicalities of risk management, particularly addressing intricacies related to macro-hedging, portfolio hedging, and non-financial hedging strategies. In light of the considerable influence of derivatives on financial stability, studies can also probe into the systemic risk implications

*Address for Correspondence: Fauler Land, Department of Economics, University of Faisalabad, Faisalabad, Pakistan; E-mail: faulae987@gmail.com

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stemming from derivatives usage. A comprehensive examination of the interplay between derivative contracts, counterparty risk, and their broader consequences on the financial system will advance our comprehension of systemic risk assessment and regulatory frameworks [5,6].

Conclusion

Accounting research dedicated to derivatives has played a pivotal role in unraveling the intricacies and hurdles connected with these financial instruments. As we look forward, it becomes imperative for future research to center its attention on emerging instruments, efficacy assessments, risk mitigation, financial stability, technological progress, and global viewpoints. By meticulously investigating these domains, accounting research has the potential to furnish invaluable insights for standard-setting bodies, regulatory authorities, and professionals, ultimately enhancing derivative accounting standards and bolstering well-informed decision-making within financial markets.

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Conflict of Interest

No potential conflict of interest was reported by the authors.

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