

# A look Back at Accounting Research on Derivatives and Recommendations for Future Work

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## Abstract

Derivatives have been a crucial financial instrument in global markets for decades and accounting research has played a vital role in understanding their complexities and implications. This article provides an overview of past accounting research on derivatives and offers recommendations for future studies to address emerging challenges and advancements. The areas of accounting research discussed include financial accounting, managerial accounting, auditing and assurance, taxation, accounting information systems and ethics and professionalism. Valuation and measurement have been a focal point of research, with studies exploring fair value measurement, hedge accounting standards and disclosure practices. Additionally, research has examined the impact of derivatives on financial reporting quality and earnings volatility. Future research should focus on emerging financial instruments such as crypto currency derivatives and carbon emission derivatives, as well as investigate the effectiveness of hedge accounting models and the systemic risk implications of 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.

## Literature Review

This includes topics such as revenue recognition, expense recognition, asset valuation, accounting for business combinations and accounting for financial instruments. Managerial accounting research explores topics related to the use of accounting information for internal decision-making and performance evaluation. This includes cost analysis, budgeting, performance measurement, strategic management accounting and the impact of information systems on managerial decision-making. Research in auditing and assurance focuses on topics related to the audit process, audit quality, auditor independence auditor judgment and decision-making, internal controls, corporate governance and the role of auditors in financial reporting [1].

Taxation research examines issues related to tax policy, tax planning, tax compliance, international taxation, the economic impact of taxation and the role

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of taxes in business decisions. Research in accounting information systems investigates the design, implementation and impact of information systems on accounting processes, internal controls, decision-making and the use of emerging technologies such as block chain, artificial intelligence and data analytics in accounting. Research in ethics and professionalism explores ethical dilemmas and challenges faced by accountants, ethical decision-making processes, professional judgment, ethical codes and standards and the role of ethics in the accounting profession. Valuation and Measurement: Accounting research has focused on developing appropriate valuation models for derivatives, considering their complex nature and unique characteristics. Studies have examined fair value measurement, mark-to-market accounting and the impact of market conditions on derivative valuations [2].

## Discussion

Research has explored the effectiveness of hedge accounting standards, such as FASB's ASC 815 and IFRS 9, in capturing the economic substance of hedging relationships. Studies have investigated the challenges faced by companies in meeting hedge accounting criteria and the impact of hedge accounting on financial statements. Accounting research has examined the disclosure practices related to derivatives, aiming to enhance transparency and provide stakeholders with relevant information for assessing risk exposures. Studies have investigated the quality and comprehensibility of derivative disclosures, the impact of regulatory changes on disclosure practices and the influence of derivatives on firm risk profiles. Research has explored the impact of derivatives on financial reporting quality and earnings volatility. Studies have examined the association between derivatives usage and firm performance, the effect of derivatives on earnings management and the role of derivatives in financial crises. Future research should focus on accounting implications of emerging financial instruments, such as crypto currency derivatives, carbon emission derivatives and other innovative derivatives. Investigating the valuation, measurement and disclosure challenges associated with these instruments will provide insights into adapting accounting standards to evolving market practices [3,4].

Further studies can explore the effectiveness of hedge accounting models in capturing risk management objectives. Research could investigate the alignment between accounting requirements and risk management practices, addressing issues related to macro-hedging, portfolio hedging and non-financial hedging strategies. Given the impact of derivatives on financial stability, research can delve into the systemic risk implications of derivatives usage. Exploring the interconnectedness of derivative contracts, counterparty risk and their impact on the broader financial system will contribute to a better understanding of systemic

risk assessment and regulatory frameworks. The integration of technology such as block chain and artificial intelligence, in derivative markets necessitates research on the accounting implications. Investigating the potential of distributed ledger technology for derivative transactions, smart contract applications and automated derivative accounting processes can shed light on future accounting practices. Comparative studies across different jurisdictions can provide insights into the similarities and differences in derivative accounting practices. Examining the impact of accounting standards convergence efforts, jurisdiction-specific regulations and cultural factors on derivative accounting will contribute to global comparability [5,6].

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## Conclusion

Accounting research on derivatives has made significant contributions to understanding the complexities and challenges associated with these financial instruments. Looking ahead, future research should focus on emerging instruments, effectiveness testing, risk management, financial stability, technological advancements and international perspectives. By addressing these areas, accounting research can provide valuable insights for standard setters, regulators and practitioners in enhancing derivative accounting practices and supporting informed decision-making in financial markets.

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## Conflict of Interest

No potential conflict of interest was reported by the authors.

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