ISSN 2321-1091

Problem of Companies Financial Analyses Derivatives Evaluation

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Abstract

This article concentrates on derivatives evaluation in financial report**.** As result to search, derivatives have negative affection and positive affection practically. Derivatives have cost in current time but return in future is not clear because of expecting possibility. In spite of its cost it must give value to increase assets value or reduce liabilities value or reduce cost or reduce tax or make profit at time of making financial report. Negative affection comes from transfer risk of loss which transfers loosing responsibility it added new type of risk. By comparing between derivatives and traditional choices to face risk, there is different in evaluation as result to degree of responsibility, source of its value, Liquidity, currency risk, product market price risk, credit risk and linked with other selling contract risk. Searcher recommended to reduce ignorance by explains the real looser and looser ability to buy loss which limit derivatives transfer loss in order to make financial report useful. Its difficulty comes from promising to give product and promising to buy price in future regardless of loss which needs grantee to apply promising or give suitable compensation. Some things consider as standards may not accept expecting rules for pricing as some currencies price which just apply by monetary policy.

Key wards: Derivatives; Evaluation; Financial Report; Risks and Rule**.**

Academic Discipline

Finance

Subject Classification

Developing Financial Tools

Type

Analyses and Comparing

Council for Innovative Research

Peer Review Research Publishing System

Journal: Journal of Social Sciences Research

Vol .5, No.2

jssreditor.cir@gmail.com

www.jssronline.com

ISSN 2321-1091

Introduction .1

International leaders advise countries which face depression to deal with developing tools in financial market. It is a way to increase speculations and mange liquidity locally and internationally. It can bring international capitals and keep local capitals. Hedging tools are ways to reduce company possibility risks. It became as result to developing financial and investing tools. It becomes way to courage dealing in financial markets to increase dealing index in order to show country economic growth. By time, it becomes way to make unusual profit by speculating. Speculation led to crises and get economic in depression. Some countries limit hedging tools by law but as result to open environment by globalization there is unsuccessful of limit. Investment immigration and international investing make limit weak. Hedging tools have positive affect. There is need to reevaluate its value. This will be showed as follow:

1- Government courage hedging tools as way to develop financial tools to increase index dealing in financial market. Companies which produce these tools can be supported from government as result to increase its tax return and transfer cost of risk happen. Companies can cover risks of loss with out increase government expenses. Hedging tools can courage producing locally in spite of high risk to increase gross domestic products.

2- Companies can transfer risk of lose. It helps to keep assets value in spite of possibility loss. It can get unusual returns as result to speculations.

As hedging tools have positive affects it has negative affects. It gives solution for expecting risk which may happen or not happen to feel safety. It increases new type of cost with out get advantage. It may increase lose as result to speculation in ignorance environment. Transfer risk may lead to weak depending on local producing in case companies use hedging tools to get the greatest profit in short term regardless of real producing. Depending on hedging tools to managing risks will reduce direct ways to managing risks as build reserves, stores, opining branches and share in other companies locally or internationally therefore increasing of hedging tools investing may reduce real sectors producing.

Financial analyses report must show company hedging tools affection on assets value and liabilities value. It increases value or fixed its value or reduces loss to keep company in market. It may increase reputation of company activity in markets which give company other assets as inventions also hedging tools may increase sales or reduce costs or reduce tax which to increase profit. This mean: hedging tools affect on income statement and balance. Any model of financial analyses will be affected by company hedging tools dealing affection. Ex: make buying future contract to limit costs of buying unit of goods by 1000$ and limit amount to be 1000 units. In future of making financial report, if cost of buying unit becomes equal 1050$ it will increase profit 50$ for every unit. It will save cost (50$ times 1000= 50000$) but when cost of buying unit becomes equal 800$ company can not buy from market because of obligatory future contract and lose 200$. It will increase cost (200$ times 1000= 200000$).

Derivatives accounting are relate to contract conditions developing up to needs. Differences came as result to contract type, way of buying, grantee, promising, type of financial market, obligatory degree, law conditions and compensation accounting in risk case.

1.1 The Problem

Hedging tools has cost in current time but return in future is not clear because of expecting possibility. It can be guarantee tool to limit loss or profitability tool. Derivatives hedging tools need suitable way to be evaluated in financial analyses. Problem questions are as follow:

First: how can derivatives contract be evaluate in financial analyses?

Second: what is the difference degree of responsibility between managing risk by hedging, traditional tools and transfer risk tools?

1.2 The Objectives

This search aims to find suitable way to evaluate hedging tools in financial analyses by study different type of derivatives as follow:

1- To find way of evaluating derivatives in order to help company financial analyses

2- To find difference degree of responsibility between managing risks by hedging, traditional tools and transfer risk tools.

1.3 The Importance

It discusses the advice which is: to use developing financial tools to transfer financial market from depression to growth. It tries to direct its supporting by comparing between its positive affect and negative affect in order to increase positive affect and reduce negative affect. It shows difference between tradition solution to face risk, hedging risk and transfer risk up to responsibility degree which give idea about degree of market gambling and tools ignorance or successful.

1.4 The related studies

(Johnni and Eska, 2010) examined if derivatives trading affects on the volatility of underlying asset. They found that speculator affect on volatility of derivatives market more than hedger there fore shocks from speculators are large. (Michael and Poulomi, 2012) explored the last 55 year of product innovation and competition at U.S future changes. There was evidence in product competition and liquidity driven monopoly effect. (C. Johnan, George and Jot, 2012) analyzed the impact of a transaction tax on the market quality of U.S future markets. They found that a transaction tax may not raise substantial revenue for the government as suggested in other studies.(Shree, Ritesh and Deepak, 2012) discussed why most people look at proponent of derivatives with suspicion and few would believe that they do contribute to society s

welfare. It concentrates on derivatives benefits. It found that derivative increased India growth locally and internationally because India has the success factor to success derivatives dealing. (Michael, Jone, Ada, Asani and Patricia, 2012) they examine the over – the – counter interest rate derivatives market in order to inform the design of post-trade price report. They found evidence of dealers hedging rapidly after large interest rate swap trades therefore there were need to keep market activity with suitable price report for this product.

2. Standards of evaluate and responsibility of financial tools

There are many financial tools which are traditional tools, hedging tools and transfer tools. These tools were developed as result to managing risk. Tools types are developed to show way of dealing with expect risk. It may face risk with less loss or transfer risk or make profit by speculating in risk. Financial tools show degree of transfer responsibility. Next table gives idea about types and transfer responsibility in case of expecting increasing of goods stores price 50%. Company has choices as follow:

Table 1: Financial tools choices to managing risk of expecting increase goods price for commercial company storing

Financial tools	Traditional tools to managing risk	Hedging tools to managing risk	Transfer tools to managing risk
Types EX:	1- Increase buying goods for storing by cash 2- Increase buying goods for storing by credit 3- Make new branch in other country to import these goods to reduce cost 4- Buy shares in companies produce these goods to reduce cost. 5- Buy other goods which give same advantage in low cost. 6- Change company type.	1- Buy Future contract to buy these goods in fixed price by financial market which has grantee. It is obligatory contract. 2- Buy Forward contract to get these goods in fixed price by other companies or banks depend on conditions. It is obligatory contract. 3- Buy Swap contract to get these goods in steps and different dates in suitable price by other companies or banks depend on conditions. It is obligatory contract. 4- Buy buying Options in fixed price from financial market which has grantee. It is voluntary contract.	1- First case is Derivatives on derivatives to transfer all risk. It derivatives other contracts from hedging tools to get commission of dealings or get part of profit. Company will be seller and controller of these contracts. It can increase demand of speculation by link goods price by industry market index which is not fixed. It will increase times of dealing to increase commission. Times of dealing increase because of different speculation on selling and buying because index change every day. 2- Second case to make from derivatives other type to get profit as fixed 10000 unit of goods price by future contract to get every unit by 100$ in 2/2/2015 then it sell its derivatives by other future contract to sell unit 120$ in same date2/2/2015 as result to increasing demand.
Degree of responsibility	Responsibility to face risk increase in (1, 2, 3) choices and divides responsibility with other sharers in (4) choice but it avoids risk in (5, 6) choices. This mean in case of lose, it will lose in (1,2,3) choices and will share lose in (4) choice but it avoids lose in (5,6) choices	Responsibility to face risk is reduced up to possibilities. This mean in case of lose, it will lose in (1, 2, 3) choices but it will transfer lose in options.	No Responsibility in case of loses because of transferring risk as in (case 1). Seller just gets commission in dealing. Responsibility in (case2) is transfer on first future contract. Future contract is obligatory to buy and sell in spite of decreasing unit price 50$ in future.
Source of its value	Value of owning real assets	Value of owning right up to promising to own real assets	Value of owning right up to promising which derivative from essential contract to own right up to promising in order to own real assets

Liquidity	Need time to liquid as result to search for buyer	Easy to sell in financial market up to condition as in future contracts and some type of options but swap, forward contract and other type of option need searching for buyer.	Easy to sell in financial market up to condition as in future contracts and some type of options but swap, forward contract and other type of option need searching for buyer

Financial analyses have to show derivatives value in balance sheet and income statement. In spite of its cost it must give value to increase assets value or reduce liabilities value or reduce cost or reduce tax as expenses not get in tax or make profit at time of making financial report. Practically the value will be just expecting in future date but in current date before date of apply selling come there is problem to evaluate affect of derivatives and show responsibility on economic growth.

Degree of responsibility is show by questions which are:
1- Who will get lose in case of loosing?
2- Is way of managing risk has current value before case of loosing happen?
This question will distributed to other questions as follow:
a-Is it grantee to reduce risk which keep assets risk and liabilities risk classification in good type as strength point?
b-Is it strategy to manage strength points, weakness points, opportunities points and threat points which show managing strength to make profit which keep assets risk classification in good type as strength point which shows power of human resource accounting?
c-Is it give profit by make derivatives on derivatives to get commission or part of essential derivatives profit with out expect loss?
d-Is it give limit for expect loss to keep strength points of company managing
e-Is it give profit now?
f- Is it important to financial market index as show good developing economic for country as value added?

3. Derivatives valuation problems

Derivatives affect on real value for asset, equity, liability, cost and profit after tax. It affect on gross domestic product also gross national products therefore derivatives affect on companies locally and internationally also affect on general budget and economic growth. Derivatives are way to financial assets and financial liabilities. I face problem of evaluate as result to fair value evaluation changing. The evaluation must show increasing or reducing of assets, liabilities, cost and profit after tax. There are many questions as follow:
1- Are hedging tools a guarantee which has value in time of making financial analyses?
2- Are hedging tools an increasing profit which has value in time of making financial analyses?
3- Are hedging tools an increasing assets value which has value in time of making financial analyses?
4- Are hedging tools decreasing liabilities which have value in time of making financial analyses?
5- Are hedging tools reducing cost of traditional ways which has value in time of making financial analyses?
6- Are hedging tools evaluation has limits to show its value in financial analyses?

Fair value can impact hedging effectiveness as result to these factors:

1- There is promising between derivatives contracts dealing in future. This means seller will sell product and buyer will buy price. There will be risks as currency rate change, market price change and credit risk change.
2- Some derivatives not standardized because of different date, amount and product type. This will give idea of problem evaluation from contract to other as result to different conditions and different risk.
3- "Fair value does not take into consideration transaction costs incurred at initial acquisition or expected to be incurred on transfer or disposal of financial instrument"(IFRS :2012:4)
4- Problem increases with developing derivatives as result to derivate on derivatives. This increases risk because product and price will be given in future to face expect risk or to get addition return from first derivative contract.

Comparing with parallel contracts which is delay selling. It delays product or delays buying price. It has risks as derivatives but its value depends on real dealing. While derivatives may not apply dealing and prefer to buy compensation than apply contract or transfer risk by sell derivatives contract. Evaluate contract value to evaluate assets, liability, equity, cost and profit after tax are fixed in selling cash then delay contract then parallel contracts. It fixed the product owning if cash is delay while it fixed cash value if it be bought currently see next table:

Table 2: Complexity of evaluation up to currency, market price, credit and linked with other contract risks

International Selling types	Selling in cash by buy product and price	Just delay product in selling but cash buy currently	Just delay price buying in selling but product buy currently	Derivatives delay price buying and products	Derivate from derivative delay price buying and products up

	currently				to first derivative contract success
Currency risk	-	-	it appears	it appears	it appears
Product market price risk	-	it appears	-	it appears	it appears
credit risk	-	it appears	it appears	it appears	it appears
Linked with other selling contract risk	-	If it appear It becomes parallel contracts, its risk would increase if first contract had increases its risk	If it appear It becomes parallel contracts its risk would increase if first contract had increases its risk	It appears. its risk would increase if first contract had increases its risk	It appears. its risk would increase if first contract had increases its risk

3. Derivatives limits

Derivatives limits show way to fixed risks or control risk in order to make financial report useful practically. Assets, liabilities, costs and profits are change from time to other because market value is not fixed and dynamic change. Financial report value will be not useful when changes in not controlled. There are many factors to success derivatives dealing. The rule is: many factors affect on derivatives and many changes in these factors mean complex environment which make difficult to depend on financial report as valuator.

Some factors increase derivatives dealings success but not own from all countries. Ex: India gets national value and international value from derivatives as result to derivatives practically important. It own integration with international financial market and have innovation in financial engineering to give choices to managing risk therefore derivatives dealings are types up to need. Its important leads to affect on pricing shares, assets, currency, interest (Shree, Ritesh and Deepak, 2012).

Derivatives has affected on trading activity. It needs to be studied by government as result to affect on monetary policy and financial policy. Derivatives dealings can show the composition of market participants, level of product standardization, and market making behavior. It will show its affection on government policies which increase by globalization. Lawmakers and rules which govern derivatives trade will increase use of centralized market to control information and trading (Michael, Jone, Ada, Asani and Patricia, 2012).

Conclusion

This article found the follow results:
1- Derivatives have negative and positive affections practically.
2- Derivatives contract evaluated affect on general budget, balance sheet and income statement. Derivatives have cost in current time but return in future is not clear because of expecting possibility. In spite of its current cost, it must give value to increase assets value or reduce liabilities value or reduce cost or reduce tax or make profit at time of making financial report.
3- Negative affection comes from transfer risk of loss which transfers loosing responsibility. It added new type of risk.
4- By comparing between derivatives and traditional choices to face risk, there is different in evaluation as result to degree of responsibility, source of its value, Liquidity, currency risk, product market price risk, credit risk and linked with other selling contract risk.

Recommendation

Searcher recommended to reduce ignorance by explain the real looser and looser ability to buy loosing which limit derivatives transfer loss in order to make financial report useful. Its difficulty comes from promising to give product and promising to buy price in future regardless of loss which needs grantee to apply promising or give suitable compensation. Some things consider as standards may not accept expecting rules for pricing as some currencies price which just apply by monetary policy.

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