

COMPARATIVE ANALYSIS OF ACCOUNTING TREATMENTS FOR DERIVATIVES

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ABSTRACT

This paper provides educators with a classroom example or a self-study tutorial to teach Statement of Financial Accounting Standards No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*. The example can be used in courses such as intermediate or advanced accounting that discuss derivative instruments or investments topics or in a training program that focuses on implementing FAS 133. This teaching material can help students gain technical knowledge of FAS 133. It can also help develop critical thinking skills in analyzing the impact of an accounting standard on a firm's operation. A scenario based on a futures contract used by a natural gas company to hedge price fluctuations of its gas inventory is applied across four cases to show the impact of derivative designation on the accounting treatment and to provide a comparative analysis of the economic results from using different accounting treatments for the derivative. Case 1 and Case 2 demonstrate hedge accounting under FAS 133 by designating the derivative as a fair value hedge and a cash flow hedge, respectively. Case 3 illustrates accounting for a derivative that is not designated as a hedge. Case 4 demonstrates the impact of not entering or using a derivative to mitigate market risk. A downloadable spreadsheet on the author's website can be customized for use in the classroom.

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