

The Role of Hedge Accounting in Reducing the Risks of Prices Changing

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Abstract

This research aims to study the role of hedge accounting in reducing the risks of prices changing. To achieve this aim, the researcher reviewed special literatures talking about hedge accounting and using it in financial risk management -in general- and its affect in reducing the risk of price changes (risk of interest rate changes, and the risk of exchange rate changes) -in particular. That is through: presenting the basic concepts of using the hedge accounting in management and reducing risks, clarifying the objective of using those tools, identifying types of risks on financial organizations types and how to cover it using the hedge tools, and then making a comparison between data through six years for a specified financial organization, interpreting results, and offering recommendations.

The researcher found many results, the most important results: the under studying organization affected by the international and domestic economic variables that lead to increase risks, hedge tools relating to assets and liabilities contribute in reducing risks, and using hedge activities is the best way to manage and reduce risks.

The research reached to a set of recommendations that would improve the performance and profits of financial organizations, and therefore its competitive position in the financial market, which is by relying on hedging activities accounting in financial organizations and its role in reducing the risks of price changes.

Keywords: Hedge accounting, Exchange price risks, Interest rate risks

Received 5 /8 /2015

Accepted 27 8/ /2015