Extensive Summary

Businesses have to make protective provisions against risks in interest rate, exchange rate, and liquidity. Hedging is the process of minimizing the losses because of the effect of price changes on assets, liabilities or future commitments.

Businesses use derivative financial instruments to hedge risk. Forward transaction, which is a derivative financial instrument, is a foreign currency contract that contains delivery of goods as well as financial assets in the non-organized markets with interest rates pre-determined future date.

Years before Christ, the first use of derivative financial instruments is based on the conceptual thought. In 12th century in Europe, first forward contracts were started to be used by the development of trade. Derivative products are used in the market all over the world for hedging and speculative purposes. On the basis of the deepening global economic crisis that began in 2008, we can say that there is the effect of highly leveraged speculative use of derivative instruments in developed markets.

Accounting standards define hedging relationships as three types. These are fair value hedges, cash flow hedges and hedge of net investment in a foreign operation.

Cash flow hedge that forms the subject of this study, is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. Cash flow hedge shall be accounted; the portion of the gain or loss on the
hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

When we analyze Turkey Accounting Standards and Turkey Financial Reporting Standards, 4 standards appear to be related to derivative financial instruments. These are: IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments" standard. When these standards were analyzed, the following points were determined;

• In IAS 32 "Financial Instruments: Presentation" standard, the classification of financial instruments have been made. While standard makes the classification of financial instruments, financial assets, and financial liabilities it also deals with the nature of the derivative instruments mentioned. In the classification, derivative products are included in financial assets or financial liabilities.

• In IFRS 7 "Financial Instruments: Disclosures" standard, there are disclosure requirements for financial instruments include provisions pertaining to the public. In that standard, there are the scope of financial instruments derivative financial instruments and hedge accounting disclosures to the public in relation to a description of each type of hedge, a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and the nature of the risks being hedged.

In the standard, businesses are required to make public the following disclosures;

  a) In fair value hedges, gains or losses: on the hedging instrument; and on the hedged item attributable to the hedged risk.
  b) The ineffectiveness recognized in profit or loss that arises from cash flow hedges and
  c) The ineffectiveness recognized in profit or loss that arises from hedges of net investments in foreign operations.

• In IFRS 9 "Financial Instruments" standard, the classification of financial instruments, the initial recognition, the measurement is located in the financial reporting principles. The Board of the International Accounting Standards IAS 39 "Financial Instruments: Recognition and Measurement" Standard launched a new project to replace the first, and in this regard on 12 November 2009 IFRS 9 "Financial Instruments" issued standard. Published the first part of the standard classification and measurement of financial assets are introduced. When issues are still being worked on IAS 39 will be abolished. In Turkey, published in the Official Gazette No. 27564 dated 27.04.2010 IFRS 9 "Financial Instruments", which is working on issues related to the standard is complete, in the standard IAS 39 "Financial Instruments: Recognition and Measurement" will be replaced by the standard.
In previous applications that are not based on standards, while derivative financial instruments accounted in the off-balance sheets, the primary accounts in the financial statements show the financial derivative instruments adopted during follow-up of IAS 39 standard.

In the case of the application in our study, there is purchase of tangible fixed asset by foreign money. Forward contracts were made in order to hedge the cash flow risk related to the purchase of tangible fixed assets at future foreign mercenaries. Forward contracts are shown in principal accounts on the balance sheet in accordance with IAS 39 Standard, and also derivative financial instruments are shown as fixed assets. The fair value of the contract during the contract period at the end of the period to show the valuation differences arising from the valuation of equity shown in the balance sheet. Net valuation differences arising from the contract are accounted for by two separate options. The first option is related with the net costs associated with the asset valuation difference. The second option is deducted from the amount of depreciation for the asset at the end of the period.