"DERIVATIVE ACCOUNTING PRACTICES IN INDIA"

Mr. Rohan Tulshiram Nandire
Student of Master of Management Studies,
Alamuri Ratanamala Institute of Engineering And Technology,
Mumbai University,
rohannandire@gmail.com

Prof. Shital Shah, Assistant Professor,
Master of Management Studies
Alamuri Ratanamala Institute of Engineering And Technology,
Mumbai University,

Dr.Ashwini Kshirsagar Professor / HOD,
Master of Management Studies
Alamuri Ratanamala Institute of Engineering And Technology,
Mumbai University

ABSTRACT:-

The emergence of the market for derivative products, most basically forwards, futures and options, can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, the financial markets are marked by a very high degree of volatility. Through the use of derivative products, it is possible to partially or fully transfer price risks by locking–in asset prices. As instruments of risk management, these generally do not influence the fluctuations in the underlying asset prices. The emergence of the market for derivative products, most basically forwards, futures and options, can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, the financial markets are marked by a very high degree of volatility. Through the use of derivative products, it is possible to partially or fully transfer price risks by locking–in asset prices. As instruments of risk management, these generally do not influence the fluctuations in the underlying asset prices.

KEYWORDS –
Derivatievs, Option, Put, Call, Shares, Value, Price.

1: INTRODUCTION :

Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index, or reference rate), in a contractual manner. The underlying asset can be equity, forex, commodity or any other asset.

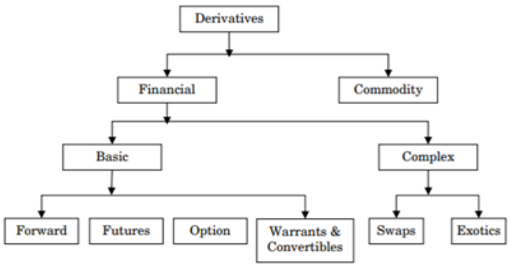
According to Securities Contracts (Regulation) Act, 1956 ,

- Derivatives is a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security.

2.: HISTORY OF THE BANK:

The history of derivatives is quite interesting and surprisingly a lot longer than most people think. Forward delivery contracts, stating what is to be delivered for a fixed price at a specified place on a specified date, existed in ancient Greece and Rome. Roman emperors entered forward contracts to provide the masses with their supply of Egyptian grain. These contracts were also undertaken between farmers and merchants to eliminate risk arising out of uncertain future prices of grains.

3. TYPES OF DERIVATIVES :



1) **Forward:**
A forward contract is a customised contract between two entities.A forward contract is an agreement to buy or sell an asset on a specified date for a specified price. One of the parties to the contract assumes a long position and agrees to buy the underlying asset on a certain specified future date for a certain specified price.

2) **Futures:**
A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardised exchange-traded contracts.

3) **Options:**
Options are of two types calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date.

4) **Warrants and Convertibles:**

Options generally have lives of upto one year, the majority of options traded on options exchanges having maximum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the-counter. When a warrant is issued by the company, and when a warrant is exercised, the number of shares increases.

5) **Swaps:**

Swaps are private agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts.

6) **Exotics:**

Exotics options are the classes of option contracts with structures and features that are different from plain-vanilla options (e.g., American or European options). Exotic options are different from regular options in their expiration dates, exercise prices, payoffs, and underlying assets.

4. OBJECTIVES:

1. To examine the knowledge and attitude of investors towards derivative accounting practices in India.
2. To analyse how Derivative accounting works in India.
3. To compare the Indian accounting standards and Intenational accounting standards.
4. To evaluate the problems in Derivative accounting.

5. To recommend modifications or changes to improve the functioning of financial derivatives market, if needed.

5. RESEARCH METHODOLOGY:

Research is one of the most important parts of any study and pertains to the collection of information and knowledge. My project has been developed on has basis of both Exploratory and Descriptive research. Designing a research plan calls form decisions on the data sources, research approaches, research instruments, sampling plan, and contact method.

5.1. Sample size:

I chose a sample size of 50 respondents consisting of based on judgment sampling. All respondents were the customer of Axis Bank. The method was simple random sampling.

5.2: Secondary Data:

Secondary data provides a starting point for any research and offers valuable source of already existing information. For my project work it was collect through the help of various directors of various associations, magazines, newspaper, website etc.

5.3 Primary data :

For my project work the primary data was collected by means of survey though questionnaires.

5.4: Limitations:

- This study covers only few people of kalyan city, It is very difficult to make sufficient respondent information from the axis bank.
- Some respondent didn’t show the interest to fill the questionnaire.

6. CONCLUSION:

The analysis of the questionnaire shows that the respondents who trade and invest in derivative market make investment with an objective of maximum returns in share market alternatives. Respondents are neutrally satisfied with the performance of derivative accounting practices in India.

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