

# [Cataract week 7 case study](https://assignbuster.com/cataract-week-7-case-study/)

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Cataract Week 7 Case Study ay galleons 2013 Results for Thomas Foods This report discusses the issues that Thomas Foods wants researched with examples of how Hedge Accounting could potentially benefit their company. Give examples of hedge accounting usage and if warranted develop a strategy to help the current Controller as well as future personnel properly account hedging assets. FACTS : ere goal of Thomas Foods is to neutralize large increases on produce prices from local farmers. The areas that can affect the costs unexpectedly mainly reside in extreme fluctuations of weather.

Thomas Foods is interested in deciphering whether r not hedge accounting would be the ideal form of accounting.

There are two forms of hedge accounting. The first is cash flow hedge accounting. The second is fair ‘ alee hedge accounting practices (Hofmann ; Wisher, 2011). Thomas Foods needs to be able to buy from local farmers and still make a profit when selling to merchants across the US. ISSUES: 1 . Whether hedge accounting can benefit Thomas Foods monetarily on produce purchases from local farmers (Hofmann ; Wisher, 2011).

2. Provide examples of hedging strategies or alternative method and explain the impact to operating

Income to ensure minimal loss (SAAB Board Members, 2010). 3. Clearly define and explain using examples on the accounting side to Thomas Foods current Controller : alienation Accounting Standards Board, 2008). CONCLUSIONS: 1 . Hedge accounting works best with transactions from original source such as the farmer (Hofmann ; Wisher, 2011).

2. Utilizing the use off Purchase Order system will best benefit Thomas Foods (FAST Accounting Standards Codification, 2013). 3. The Controller will have minimal training on accounting for a POP system on either cash or accrual basis (International Accounting Standards Board, 2008).

EXAMPLES: Hedge accounting is a method that combines the values of both a security and its offsetting hedge instrument (Investigated Board, 2009) .

Using hedge accounting to offset fluctuations in the market price can be beneficial if done correctly as an investor. In order to accurately utilize hedge accounting there has to be control over one aspect. For Thomas Foods that control would consist of resale value. Purchasing trot the local tatters to resell to merchants is the order upon which Thomas Norms. A farmer can use hedge accounting when selling to Thomas Foods or other produce buyers.

This works because the farmer has control of the purchase price. Aromas Foods has control over the selling price of what is purchased. However, Thomas Foods does not control the purchase price. This leads to being unable to ensure any type of profit because there is no certainty of a base price to start with. Aromas Foods cannot sell produce that it does not have a guarantee of stock.

This means that hedge accounting will not work for Thomas Foods. Thomas Foods has no control of pricing by farmers unless Thomas Foods contracts with each farmer the purchase price for a certain quantity.

Thomas Foods is a third party entity that will best benefit working off of a Purchase Order over trying to change their accounting procedures entirely. With a Purchase Order (POP) the farmer is using the hedging concept by guaranteeing a set amount of produce to be sold to Thomas Foods for a set price over a set amount of time. Thomas Foods in turn can account for the expense of buying produce from farmers and in turn utilize the savings when selling to merchants.

The accounting system would not require the huge expense of training the current Controller. Thomas Foods can facilitate budgeting when utilizing the POP system.

This format may work if extending gains and losses is beneficial for Aromas Foods. Hedge accounting can easily be too difficult in the accounting aspects. With the Controller for Thomas Foods lacking any knowledge of reporting financial using hedge accounting the best strategy for Thomas Foods might be not to use hedging accounting. The agricultural hedging concept for farmers works by future selling at present cash prices (Hofmann ; Wisher, 2011).

For farmers using the hedging concept allows for minimal loss yet also decreases potential future gains. All in all, hedging is Just that, minimal losses and minimal future gains