# DETERMINANT OF ASSET REVALUATION AND CORPORATE VALUE (STUDY ON INDONESIA STOCK EXCHANGE)

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**ABSTRACT**

*The purpose of this study is to examine and analyze 1) the effect of investment opportunity on asset revaluation, 2) the effect of leverage on asset revaluation, 3) the influence of information asymmetry on asset revaluation, 4) the influence of ownership structure on asset revaluation, 5) the effect of liquidity on asset revaluation, 6) the effect of firm size on asset revaluation, 7) the influence of asset revaluation on corporate value. The data analysis method uses partial least square for all industry firms that use asset revaluation during 2013 to 2017. The research finding shows the ownership structure has a positive effect on asset revaluation and asset revaluation has a positive effect on corporate value*

Keywords: Asset Revaluation, Corporate Value, Determinant Asset Revaluation

## I. Introduction

Background
GAAP and IFRS are the two international accounting standards that are widely used in the countries. In GAAP the measurement of fixed assets uses the historical cost system or the cost of fixed assets, whereas in IFRS the company assesses its fixed assets using fair value system. Indonesia itself, as one of the countries that adopted IFRS into its accounting system (PSAK) since January 1, 2012 has also received the impact of valuation and recording of assets from the historical cost system into a fair value system. This change will certainly affect the impact of changes on regulatory recognition, recording, reporting and disclosure of assets in the financial statements.

According to Barlev et al. (2007) and Missonier and Piera (2007) who examined the motivation of the company in doing the revaluation concluded that revaluation will be very informative if the company is in a country with good legal certainty and has strong capital market.

This study analyzes the determinants of asset revaluation as measured by Investment Opportunities, Leverage, Information Asymmetry, Ownership Structure, firm size and Liquidity, and its impact on corporate value Research conducted by Courtenay and Cahan (2004) and Tay (2009), found that asset revaluation effect positively to growth performance in the future.

## II. Review Of Literature And Development Of Hypotheses

Determinant of Asset Revaluation
The revaluation of fixed assets is a review of the value of a fixed asset. Revaluation is often interpreted as reassessment which causes the asset value to be higher, whereas revaluation can result in lower or higher value of the recorded assets (Tay, 2009).
1) The effect of investment opportunities on the revaluation of fixed assets
Investment decisions affect the company's decision to revaluate its fixed assets. The effect that occurs is a negative effect it shows that the higher the investment decision the decision of fixed assets will also rise.. Tay (2009) and Choi (2013) explain that market to book equity negatively affects asset revaluation, so the higher the market to book equity the lower the asset revaluation ability but Peasnel (2000) explains that market to book ratio has positive effect, high market to book ratio then the asset revaluation will increase. Etty Murwaningsari and Sistya Rachmawati (2017) analyze the effect of capital intensity and investment opportunity set toward the conservatism as well as to determine the effect while using managerial ownership as moderating variable. Investment decision in this research is market to book ratio, market to book equity and price earning ratio
H1: investment opportunity has an effect on asset revaluation

2) Effect of leverage on revaluation of fixed assets
Companies that use high debt structures to finance their investments are considered to be at risk. Barac and Sodan (2011), Lin and Peasnel (2000), Iatridis (2011), Choi et al (2013), Lopez (2012), Barac and Sodan (2011) explained that leverage positively affects revaluation of assets, this indicates that the higher the leverage the asset revaluation will increase, while Cahan (2004) explains that leverage negatively affect the asset revaluation so that the higher the leverage the asset revaluation will decrease. Including leverage is the debt equity ratio and debt asset ratio
H2: leverage affects the revaluation of fixed assets

3) Influence of information asymmetry on fixed asset revaluation
Information asymmetry occurs when one party to a transaction has more information than the other. Fixed asset intensity is one of the factors tested related to in information asymmetry). It is suspected that there is a positive relationship between the decision to revalue with the asset's intensity. Previous researchers are Lin and Peasnell (2000), Tay (2009), Seng and Su (2010), Choi et al, (2013), Kilirgiotis and Iatridis, (2011), Lin and Peasnell (2000), Tay (2009), Kilirgiotis and Iatridis, (2011) explain that asymmetric information has a positive effect on asset revaluation so that the higher the asymmetric information the asset

revaluation will increase. Etty Murwaningsari (2017) investigates the role of information asymmetry as a moderating variable to strengthen or to weaken the effects of earnings quality, conservatism, and real earnings management on the company's performance. Including information asymmetry are earnings forecast error, bid aks spread and fixed asset intensity
H3: information asymmetry influences fixed asset revaluation

4) Influence of ownership structure on revaluation of fixed assets
A company with ownership of centralized ownership is more capable of revaluing assets. The research which is in line with this research is Piera, (2007) explains that foreign ownership and Piera (2007) majority ownership positively influence to asset revaluation so that high level of foreign ownership and majority ownership then asset revaluation will increase. Including the ownership structure are: majority ownership and foreign ownership
H4: the ownership structure has an effect on the revaluation of fixed assets

5) Influence of liquidity on asset revaluation
Liquidity has a significant negative impact on the choice of revaluation methods.. The choice of revaluation method is likely to be conducted by companies with low liquidity, while companies with high liquidity do not need to revaluate fixed assets. Researchers have the same opinion with previous research conducted by Black, Sellers and Manly (2008) and Tay (2009), Barac and Sodan (2011). Including the liquidity of the company is the current ratio, quick ratio and decrease of cash flow
H5: Liquidity affects the revaluation of fixed assets

6). The effect of firm size on asset revaluation
According to Seng and Su (2010) firm size is an important factor in the company's decision to revalue the assets. When large companies report high profits, this report will draw the attention of regulators and others with power and capacity, to create new rules that reallocate company resources. In addition, large corporations also attract the attention of trade unions as they relate to payrolls by companies (Brown et al., 1992 in Seng and Su, 2010). Including of firm size are total asset and total sales
H6: Firm size affects the revaluation of fixed assets

7) Effect of Asset Revaluation on Corporate Value
Revaluation of fixed assets should be a positive information for external parties, because in addition to being able to motivate the improvement of company performance reflected in the profit and stock price of the company. Research that is in line with this research is Courtenay and Cahan (2004) and Tay, (2009) ..
H7: asset revaluation affects corporate value

## III. RESEARCH METHOD AND TECHNIQUES ANALYSIS

### 1. Research Design

Grand design of this research determinant of revaluation of fixed asset represented by investment opportunity, leverage, asymmetry of information, liquidity and company size that influence to company value.

The method of determining the sample is purposive sampling with criteria: 1) The period of study is in 2013-2017 or period in the second stage of IFRS convergence, 2) the company uses the rupiah currency in its operations, 3) the company that used as the research sample is the company that has done revaluation of fixed assets. Data analysis techniques use partial least square

**Table 1. Companies by Year**

| Year | Companies that perform asset revaluation |
|---|---|
| 2013 | 15 |
| 2014 | 21 |
| 2015 | 24 |
| 2016 | 35 |
| 2017 | 37 |
| **TOTAL** | 132 |

## IV. RESEARCH RESULT AND DISCUSSION

**Table 3. Descriptive Variables**

| Variable | Average | Min | Max |
|---|---|---|---|
| MBVA | 29.16 | 18.18 | 48.01 |
| DER | 1.57 | 0.25 | 4.97 |
| DAR | 0.49 | 0.20 | 0.83 |
| EARN | 0.15 | (0.36) | 0.47 |
| MAY | 62.99 | 33.81 | 97.50 |
| CR | 0.79 | 0.45 | 1.03 |
| QR | 0.37 | 0.24 | 0.50 |

| | | | |
|---|---|---|---|
| TA | 20,593,362.90 | 14,962,356.56 | 24,210,290.47 |
| REVN | 344,531.93 | 349.00 | 2,330,655.00 |
| TOBIN | 27.42 | 18.64 | 48.32 |
| PBV | 2.35 | 1.43 | 4.46 |
| MBVE | 775.65 | 26.21 | 2,001.66 |
| CF | 763,549.97 | (534,850.00) | 6,279,000.00 |

Source: Results of Data

The SmartPLS output for the loading factor gives the following results

**Table 4. Convergent Loading Factors**

| Variable | Original Sample (O) | Kriteria | Kesimpulan |
|---|---|---|---|
| **CR <- Liq** | 0.977 | >0.5 | Convergent |
| **QR <- Liq** | 0.972 | >0.5 | Convergent |
| **CF <- Liq** | 0.564 | >0.5 | Convergent |
| **DAR <- Lev** | 0.827 | >0.5 | Convergent |
| **DER <- Lev** | 0.998 | >0.5 | Convergent |
| **Earn <- Asi** | 1 | >0.5 | Convergent |
| **Logrevn <- Rev** | 1 | >0.5 | Convergent |
| **Logta <- Size** | 1 | >0.5 | Convergent |
| **May <- Own** | 1 | >0.5 | Convergent |
| **MBVA <- IOS** | 0.968 | >0.5 | Convergent |
| **MBVE <- IOS** | 0.530 | >0.5 | Convergent |
| **PBV <- FV** | 0.957 | >0.5 | Convergent |
| **Tobin <- FV** | 0.961 | >0.5 | Convergent |

Source: Results of Data

**Table 5. Outer Model**

| Variable | AVE | Composite Reliability | Cronbachs Alpha | Criteria | Conclusion |
|---|---|---|---|---|---|
| **Asi** | 1.000 | 1.000 | 1.000 | >0.5 | Convergent |
| **Fv** | 0.921 | 0.959 | 0.914 | >0.5 | Convergent |
| **Ios** | 1.000 | 1.000 | 1.000 | >0.5 | Convergent |
| **Lev** | 0.842 | 0.913 | 0.920 | >0.5 | Convergent |
| **Liq** | 0.981 | 0.990 | 0.980 | >0.5 | Convergent |
| **Own** | 1.000 | 1.000 | 1.000 | >0.5 | Convergent |
| **Rev** | 1.000 | 1.000 | 1.000 | >0.5 | Convergent |
| **Size** | 1.000 | 1.000 | 1.000 | >0.5 | Convergent |

Source: Results of Data

Table 5 shows that the loading factor gives a value above the suggested value of 0.5. Means indicator used in this research is valid or have fulfilled convergent validity.

**Table 6. R square**

| Variabel | R Square | Keterangan |
|---|---|---|
| **Asset Revaluation** | 0.3480 | > 0.33, moderate |
| **Firmvalue** | 0.9725 | > 0.67, good |

Source: Results of Data

The R square value shows how much each dependent variable can be explained by its independent variable. The value of R2 at the firm value is 0.977 and the revaluation is 0.3712. This shows that the variable of firm value of 97.70% (good) and revaluation of 37.12% (moderate) can be explained by the free variable well.

Furthermore, to test the hypothesis is Determinan Revaluation of Assets and Corporate Values are as follows:

**Table 7. Hypothesis test**

| Hipotesis | Variable | Original Sample (O) | T Statistics (\|O/STERR\|) |
|---|---|---|---|
| H1 | **IOS -> Rev** | -1.331 | 0.421 |
| H2 | **Lev -> Rev** | -0.005 | 0.030 |
| H3 | **Asi -> Rev** | 0.728 | 0.400 |
| H4 | **Own -> Rev** | 0.392 | 3.259 |
| H5 | **Liq -> Rev** | -0.999 | 0.894 |
| H6 | **Size -> Rev** | -0.544 | 0.178 |
| H7 | **Rev-> FV** | 0.120 | 4.451 |

Source: Results of Data

**1. Effect of Investment Opportunity on Revaluation of Fixed Assets**
The results showed that investment opportunity had a negative effect on the revaluation of -1.331 with t stat less than 1.96, this indicates the investment opportunity is not dominant in determining asset revaluation that the greater the investment opportunity the revaluation of the fixed asset will decrease; The results of this study according to opinion by Tay (2009) and Choi (2013) explains that investment opportunity negatively affects the revaluation of assets, so the higher market to book equity, the ability of asset revaluation will be lower

**2. Influence of Leverage Affects Against Revaluation of Fixed Assets**
The results showed that leverage has no effect and negative to asset revaluation of -0.005 with t stat less than 1.96. The results of this study concurred Jaggi and Tsui (2001) and Seng and Su (2010) studies, which found no effect of corporate debt with the choice of managers to revalue. This study proves that in companies in Indonesia, the increase in leverage is not a variable that motivates managers to perform upward revaluation

**3. Influence of Asymmetry of Information on Revaluation of Fixed Assets**
The results showed that asymmetry information has no effect and positive of 0.728 on asset revaluation with t stat less than 1.96. This shows that asymmetric information is not dominant in determining asset revaluation and the amount of asymmetric information is not dominant in determining asset revaluation. The results show that this study is not in accordance with the opinion of Seng and Su (2010), Tay (2009), Lin and Peasnel (2000b) found a positive relationship between the decision to revaluate and revaluation,

**4. Effect of Ownership Structure on Revaluation of Fixed Assets**
The results showed that majority ownership had a positive and significant impact on asset revaluation. The greater the majority ownership the asset revaluation becomes greater. This research is in line with Piera (2007) which states that the effect of ownership structure with fixed asset revaluation is positive and significant (greater than 1.96) of 0.392 because majority ownership is concentrated ownership that has easy private information access to managers, thus reducing traditional agency conflict between managers and shareholders and may affect company policy.

**5. The Effect of Liquidity on Revaluation of Fixed Assets**
The result of the research shows that liquidity has a negative effect on the revaluation of fixed assets so that the greater the liquidity the asset revaluation will decrease. This is in accordance with the opinion of Black, Sellers and Manly (1998) and Tay (2009) in his research found that liquidity has a significant influence (< 1.96) of -0.999 and insignificant to asset revaluation. Revaluations help provide more actual information about the amount of cash that can be received from asset sales, thereby helping to increase the company's loan capacity and reduce borrowing costs.

**6. Effect of Size on Revaluation of Fixed Assets**
The results showed that firm size was positive and insignificant to fixed asset revaluation of -0.554. This indicates that firm size is not dominant in determining revaluation options. This research takes the same position as previous research by Brown et al. (1992), Lin and Peasnell (2000) and Tay (2009), that firm size affects asset revaluation.

**7. Effect of Asset Revaluation on Corporate Value**
The results showed that revaluation had a positive effect of 0.136 when using control variables and if not equal to 0.120 to the value of the company, so the greater the revaluation of assets the value of the company will be higher.
The results of this study in line with Aboody et al (1999) is a revaluation positive effect on futures firm performance and on the market. This study is also in line with the Lopes (2006) study conducted in Brazil.

This shows the benefits of Asset Revaluation for commercial purposes, namely:
1). Reflecting the real value (fair value), so it can be better in making decisions for both companies and investors in making investments; 2) For a company that wants to or has gone public, the revaluation is useful to arrange the value of its assets to a realistic price; 3) Improving the creditor's trust, as a result of the improvement of several financial ratios of the company, especially indicated by the debt to equity ratio and debt to equity ratio. 4) revaluation of these fixed assets may also be made by companies that wish to merge. Because by revaluing fixed assets in each company that wants to merge, it will be able to know the actual value of the asset (the fair value) for the newly formed company (after the merger).

## V. CONCLUSIONS AND IMPLICATIOM

1. Conclusion

Investment opportunity, leverage, liquidity and information asymmetry have no effect on asset revaluation. Ownership structure has a positive effect on asset revaluation. asset revaluation has a positive effect on corporate value.

2. Suggestions

The findings of this study explain that the majority ownership factor is the source of determinant of asset revaluation that can raise the value of the company of factors worth considering in determining asset revaluation

The choice given by the standard in PSAK 16 makes the company prefer cost method compared to revaluation method. Although conceptually, the revaluation will make the financial statements more relevant in decision making, but in practice it is still difficult to do and the revaluation method is expensive, such as the use of the valuer fee, the increase of audit cost.

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