

## DETERMINATION OF ASSET REVALUATION

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### Informasi Artikel

### ABSTRACT

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*This study aims to analyze the factors that influence asset revaluation decisions. The sample in this study are all industrial companies on the Indonesia Stock Exchange from 2012 to 2016 except the banking industry with a purposive sampling technique. The method of analysis in this study uses partial least square. The results showed that investment opportunities represented by the book value of the asset market did not affect asset revaluation. Debt equity ratios, debt asset ratios, current ratios, and fast ratios do not affect asset revaluation. Request a quote, and total assets do not affect asset revaluation. However, only the ownership structure represented by foreign ownership can have a positive effect on asset revaluation.*

Penelitian ini bertujuan untuk menganalisis faktor-faktor yang mempengaruhi keputusan revaluasi aset. Sampel dalam penelitian ini adalah semua perusahaan industri di Bursa Efek Indonesia periode 2012 hingga 2016 kecuali industri perbankan dengan teknik purposive sampling. Metode analisis dalam penelitian ini menggunakan partial least square. Hasil penelitian menunjukkan bahwa peluang investasi diwakili oleh nilai buku pasar aset tidak berpengaruh pada revaluasi aset. Rasio ekuitas utang, rasio aset utang, rasio lancar, dan rasio cepat tidak berpengaruh pada revaluasi aset. Permintaan penawaran, dan total aset tidak berpengaruh pada penilaian kembali aset. Namun, hanya struktur kepemilikan yang diwakili oleh kepemilikan asing dapat memberikan efek positif terhadap revaluasi aset.

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## 1. Pendahuluan

IFRS-based financial accounting standards Indonesia is considered more able to improve the quality of financial reporting standards and the comparability of financial statements. The adoption of IFRS in Indonesia has resulted in changes to PSAK, one of which is SFAS No. 16 on fixed assets. Differences in the measurement of property, plant and equipment after the initial recognition of PSAK 16 (Revised 2015) fixed assets are presented based on the acquisition value of the assets less accumulated depreciation and do not allow revaluation of fixed assets. . However, further measurements after recognition under PSAK No. 16 entities may choose between the cost model or revaluation model as their accounting policy and apply the policy to all fixed assets in the same group.

Seng and Su (2010) found that political factors proxied by size can influence the choice of firms to revalue their assets. This study is consistent with Tay (2009) and Barac and Sodan (2011) studies that found firm size significantly contributed to the revaluation decision. In the research of Seng and Su (2010) and Tay (2009) the fixed asset intensity representing information asymmetry factor was found to be significant in univariate testing but statistically insignificant in the logistic regression method. Fixed asset intensity positively affects the revaluation of fixed assets and these results are in contrast to Barac and Sodan (2011) research. The research conducted by Barac and Sodan (2011) proves that the level of indebtedness has no effect on the revaluation of ascending assets, whereas firms with low liquidity ratios are more likely to do the upward revaluation. Declining cash flow from operation representing contracting factor in Seng and Su research (2010) is not found significant to fixed asset revaluation which means that declining cash flow from operation has no effect on upward revaluation.

This study analyzes the factors that influence the asset revaluation, such as: investment opportunities, leverage, asymmetric information, asymmetric information, ownership structure, liquidity and firm size. Based on the above, it is clear that asset revaluation can be considered through investment opportunities, leverage, asymmetric information, asymmetric information, ownership structure, liquidity, and firm size. However, the results of previous studies that are inconsistent need to be explored again, thus, this study aims to resolve the gap.

This study contributes in several ways to the theoretical development of asset revaluation. First, it attempts to find the effects of investment opportunities, leverage, asymmetric information, asymmetric information, ownership structure, liquidity and firm size on asset revaluation. Secondly, the study uses PLS-SEM as an analysis tool which is an alternative method for analyzing financial data.

## 2. Literature review

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). PSAK No. 16 (2015 Adjustments) states that when an asset is still revalued, the carrying amount of the property, plant and equipment is adjusted for the amount of revaluation. On the date of revaluation, the asset is treated in one of the following ways: (a) the gross carrying amount is adjusted consistently with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated with reference to market data that can be observed or may be restated proportionally to changes in the carrying amount. The accumulated depreciation at the date of revaluation is adjusted to equalize the difference between the gross carrying amount and the carrying amount of the asset after accounting for the accumulated impairment loss; Or (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

### **Investment Opportunity**

Investment Opportunity by Myers and Skinner (1999) states that the company is a combination of the value of real assets (in place assets) with future investment options. Investment choice is an opportunity to develop, but often companies can not always carry out all investment opportunities in the future. For a company that can not use the investment opportunity will experience a higher expenditure compared to the value of lost opportunities.

### **Leverage**

Leverage in research conducted by Nissim and Penman (2001), said that: "a separation of operating activities from financing activities in a firm leads to the identification of two sources of leverage, one from the financing activities and one from operating activities. Financing leverage comes from borrowing in capital markets. Operating liability leverage arises from negotiating with customers and suppliers in the course of business operation".

### **Information Asymmetry**

Information Asymmetry by Hendriksen and Breda (2001) states that, "Information asymmetry is a situation where there is a problem caused by incomplete information, that is when managers know more information about future companies and prospects than shareholders." As the globalization era progresses and technology advances, information asymmetry tends to be reduced because of the ease of accessing and obtaining all information quickly and easily.

### **Ownership Structure**

Ownership Structure is linked to the legal framework. In countries where investor protection is weak, concentration of ownership becomes a substitute for legal protection. Thus, majority shareholders can expect to get a return on their investment (La Porta et al., 1999). Centralization of ownership positively affects the firm's value by minimizing agency cost (Classens, 2000).

### **Liquidity**

Liquidity is a financial analysis related to a company's ability to repay a debt or a liability known as the liquidity ratio analysis. In other words, the liquidity ratio serves to indicate or measure the ability of the company to meet its obligations that have matured both liabilities to external parties (liquidity of business entities) and within the company (corporate liquidity).

### **Firm Size**

The size of the Company has a different effect on the value of a company's firm. In terms of firm size, it is seen from the total assets owned by the company, which can be used for the operation of the company. If the company has a large asset, the management is more flexible in using the assets in the company. The management's freedom is in proportion to the concerns the owner has over his assets. The large amount of assets will decrease the value of the company if it is valued on the part of the owner of the company. However, if viewed from the side of management, ease of having in controlling the company will increase the value of the company.

### **Investment Opportunity Effect On Fixed Asset Revaluation Decisions**

Investment decisions affect the company's decision to reevaluate its fixed assets. the higher the investment decision the fixed asset decision will also rise. Investment decision in this research is market to book value asset. Market-to-book ratio is an investment opportunity that is a possible signal to the company's growth. Research that is in line with this research is Tay (2009), Peasnell, (2000), Choi, (2013). Tay (2009) and Choi (2013) explain that market to book equity has a negative effect on asset revaluation, so the higher market to book equity, the ability of asset

revaluation will be lower, but Peasnel (2000) explains that market to book ratio has positive effect, high market to book ratio then the asset revaluation will increase.

*H<sub>1</sub> : Investment Opportunity Has A Positive Affect On Fixed Asset Revaluation Decisions*

#### **Leverage Effect On Fixed Asset Revaluation Decisions.**

Leverage is thought to have an effect on asset revaluation. Companies with high debt levels will decide to revalue their assets to increase the feasibility of the company in the presence of creditors (Manihuruk and Farahmita, 2015). Barac and Sodan (2011) say that firms with high debt ratios are more likely to revalue their assets because revaluation may reduce the value of debt ratios. This is consistent with the results of Lin and Peasnell's (2000), research.

*H<sub>2</sub>: Leverage Has A Positive Affect On Fixed Asset Revaluation Decisions.*

#### **Information Asymmetry Effect On Fixed Asset Revaluation Decisions**

Information asymmetry is a condition where there is an imbalance between the amount of information owned by the management company with the amount of information owned by parties outside the company (Hendriksen and Breda (2001)). Information asymmetry occurs when one of the parties of a transaction has more information than the other so as to influence investment decisions.

Tay (2009) argues that revaluation is important to note where the largest portion of total assets is a fixed asset that can increase the value of an enterprise and therefore has great potential in increasing its asset base. Not only that, revaluation is also applied to reduce the reporting of corporate profitability, either through greater depreciation, or by increasing the asset base used to measure return on equity. Lin and Peasnell (2000) research found that fixed asset intensity has significant relationship Positive against the choice of revaluation model of company fixed assets. This research is consistent with Tay (2009), Seng and Su (2010). In this study which includes asymmetric information is bid aks spread,

*H<sub>3</sub> : Information Asymmetry Has A Positive Effect On Fixed Asset Revaluation Decisions*

#### **Ownership Structure Effect On Fixed Asset Revaluation Decisions**

The ownership structure is expected to affect the asset revaluation. A company that has ownership of centralized ownership is more capable of revaluing assets. The study in line with this research is to explain that the foreign ownership of Piera (2007) and majority ownership of Baek and Lee (2016) have a positive effect on asset revaluation so that high level of foreign ownership and majority ownership will increase asset revaluation. In this study which includes the ownership structure is foreign ownership.

*H<sub>4</sub> : Ownership Structure Has A Positive Effect On Fixed Asset Revaluation Decisions*

#### **Liquidity Effect On Fixed Asset Revaluation Decisions**

Liquidity is expected to effect on asset revaluation. Tay (2009) argues that the revaluation helps provide more actual information about the amount of cash generated from asset sales, thereby helping to increase the company's lending capacity and reduce borrowing costs. The results of this study are in accordance with Barac and Sodan (2011). Seng & Su (2010) argues that revaluation can provide a signal of higher value than the firm's asset assets, which will help convince debt holders about the company's ability to pay off its debt. Therefore, the revaluation will restore the company's loan capacity. They propose that firms with declining cash flow are more likely to revalue their assets. Barac and Sodan (2011) find that low cash flow ratios are more likely to revalue their assets. In this study, including liquidity is the current ratio and quick ratio.

*H<sub>5</sub> : Liquidity Has A Positive Effect On Fixed Asset Revaluation Decisions*

### Firm Size Effect On Fixed Asset Revaluation Decisions

Firm Size is often a proxy of political factor. This is in line with the political cost hypothesis in which large corporations seek to show conservatism in their profitability in order to avoid political visibility that could have an impact on increasing political costs and tougher regulation. Overseas research finds that large firms will revalue to reduce return on equity, assets, and potential capital gains from sales that will reduce political costs (Lin and Peasnell, 2000; Tay, 2009; Seng and Su, 2010; Barac and Sodan, 2011). This study selects the same position as previous studies which say that because it wants to reduce the political pressure of government or trade unions, large companies will tend to revalue fixed assets. In this study which included firm size is total assets.

*H<sub>6</sub> : Firm Size Positively Affects Fixed Asset Revaluation Decisions*

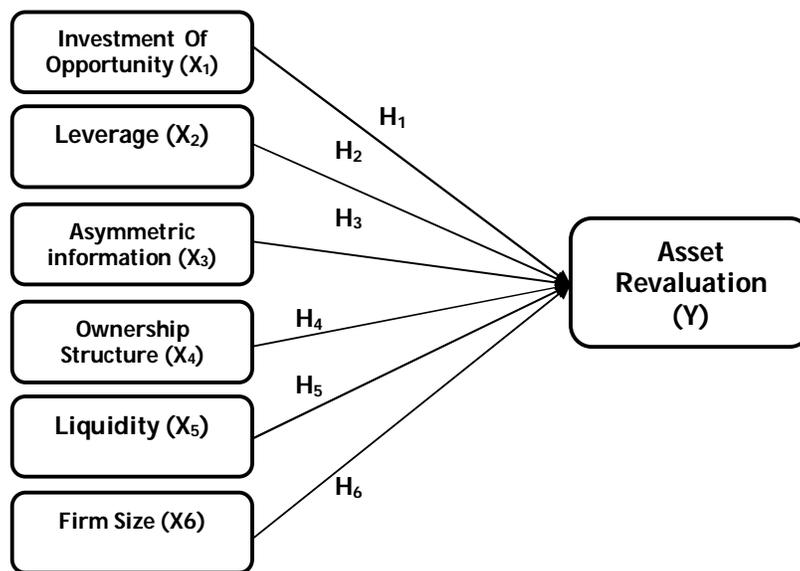


Figure 1. Research Model

### 3. Research Methods

#### Population and sample

The object of this study are all companies listed in Indonesia Stock Exchange 2012-2016. From all the existing population, only sample of companies that meet the criteria in accordance with purposive sampling technique, with criteria (1) industrial companies on the Indonesia Stock Exchange since the period 2012 to 2016 except the banking industry, (2) has complete data required during the observation period. Sources of data used as research samples are financial reports published from the official website of Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)). All data used in this research variables obtained from the company's financial statements.

#### Measurement

Quantitative research methods are one type of research whose specifications are systematic, planned, and clearly structured from the beginning to the design of the research. Operationalization of variables in this study are:

**Table 1. Operationalization of variables**

Variabel	Indikator	Skala	Literatur
Investment of opportunity (X1)	Market Book value of Asset (X1.1)	Ratio	Tay, (2009), Peasnell, (2000)
Leverage (X2)	Debt equity ratio (X2.1)	Ratio	Seng dan Shu, (2010), Novaes (2002), Asgharian (2003) Baker dan Wurgler (2002)
	Debt asset ratio (X2.2)	Ratio	Lin dan Peasnell, (2000), Courtenay dan Cahan, (2004)
Asymmetric information (X3)	Bid ask spread (X3)	Ratio	Li dan Zhao, (2005)
Ownership Structure (X4)	Foreign ownership (X4)	Nominal	Pierra, (2007), Chen dan Luzhen (2012)
Liquidity (X5)	Current Ratio (X5.1)	Ratio	Tay, (2009), Kretarto (2005)
	Quick Ratio (X5.2)	Ratio	Cheng dan Lin, (2009), Fang et al (2009)
Ukuran Perusahaan (X6)	Total asset (X6)	Ratio	Lin dan Peasnel, (2000); Seng dan Su, (2010), Barac dan Sodan (2011), Tay, (2009)
Asset Revaluation (Y)	Asset Revaluation (Y)	ratio	Courtenay dan Cahan (2004), Tay (2009)

Source: Data processed

### Analysis Techniques

Research using quantitative data analysis techniques through the test equation model and structural equation model introduced by Herman Wold, is Partial Least Square (PLS) and is often called soft modeling.

## 4. Results and Discussion

The results show that 47 companies have revalued assets from 189 companies that have met the sample criteria. Some of the assumptions used in the PLS test requirements are as follows:

**Table 2. AVE and Cronbach Alpha Test**

	AVE	Conclusion AVE	Cronbachs Alpha	Conclusion Cronbachs Alpha
Y	1	>0.5	1	>0.6
x1	1	>0.5	1	>0.6
x2	0.900039	>0.5	0.94502	>0.6
x3	1	>0.5	1	>0.6
x4	1	>0.5	1	>0.6
x5	0.923108	>0.5	0.916728	>0.6
x6	1	>0.5	1	>0.6

Source: Data processed

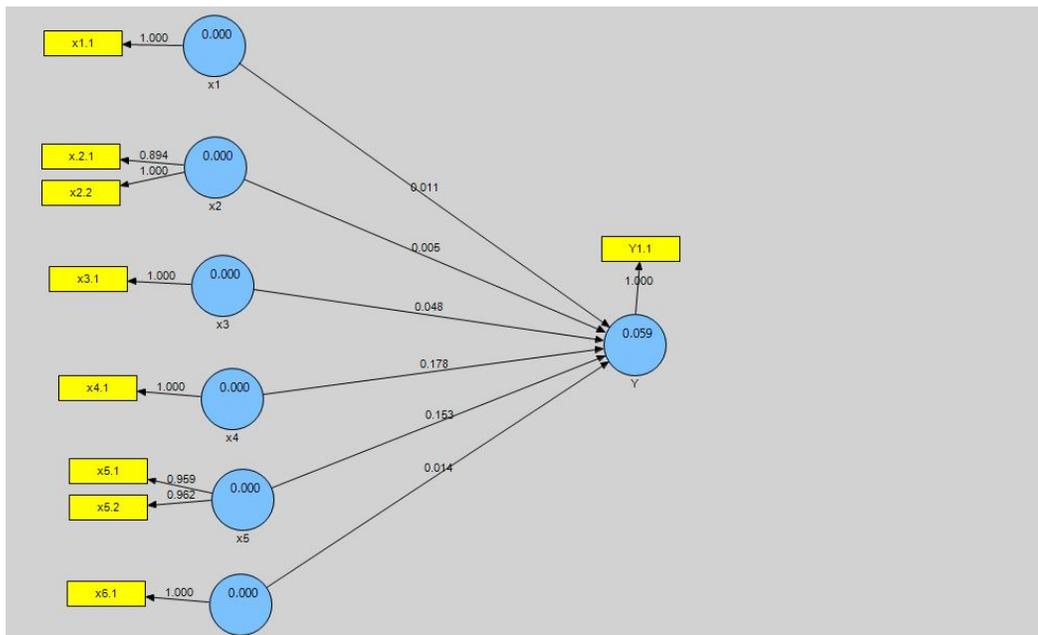
AVE test results greater than 0.5 and the cronbach alpha test is greater than 0.6, so the research data meets the validity and reliability test (PLS test)

**Table 3. Outer Loadings (Mean, T-Vaues)**

	Original Sample (O)	T Statistics ( O/STERR )	Conclusion T Statistics ( O/STERR )
Y1.1 <- Y	1		>1.96
x.2.1 <- x2	0.894476	4.424663	>1.96
x1.1 <- x1	1		>1.96
x2.2 <- x2	0.999996	5.675827	>1.96
x3.1 <- x3	1		>1.96
x4.1 <- x4	1		>1.96
x5.1 <- x5	0.959399	20.255829	>1.96
x5.2 <- x5	0.962169	12.525278	>1.96
x6.1 <- x6	1		>1.96

Source: Data processed

The result of outer loading test of each indicator to the latent variable shows that the loading factor value is greater than 0.7 and the statistic t value is greater than 1.96, so that each indicator is convergent (PLS test). Furthermore the test results if the data factors that affect the asset revaluation are as follows:



Source: Data processed

**Figure 2. Results of Algorithm Data**

**Table 4. Result of Data Analysis**

	Original Sample (O)	T Statistics ( O/STERR )		Conclusion
x1 -> Y	0.011199	0.051204	<1.96	H1 is rejected
x2 -> Y	0.005048	0.125976	<1.96	H2 is rejected
x3 -> Y	0.048265	0.634342	<1.96	H3 is rejected
x4 -> Y	0.178188	2.074359	>1.96	H4 is accepted
x5 -> Y	0.152798	0.501309	<1.96	H5 is rejected
x6 -> Y	0.014461	0.087169	<1.96	H6 is rejected

Source: Data processed

#### **Investment Of Opportunity Affects Asset Revaluation**

The result of the research shows that the value of investment opportunity statistic is smaller than 1.96, so investment opportunity has no effect and positive on asset revaluation. This research is in accordance with Peasnel (2000) which explains that market to book ratio has a positive effect so that the higher market to book ratio then the asset revaluation will increase.

#### **Leverage Affects Asset Revaluation**

The results show that the value of t statistic leverage is smaller than 1.96, so leverage has no effect and positive on asset revaluation. The research is in accordance with Barac and Sodan (2011), Lin and Peasnel (2000), Choi et al (2013), Azousi and Jarboui (2012), Barac and Sodan (2011) leverage has a positive effect on asset revaluation, it shows that the higher the leverage the asset revaluation will increase.

#### **Asymmetry Information Affects On Asset Revaluation**

The results showed that the t value of statistic asymmetric information is smaller than 1.96, so asymmetry has no effect and positive on asset revaluation. In accordance with Tay's (2009) study which argues that revaluation is important to note where the largest amount of total assets of a firm is a fixed asset that can lead to an increase in a firm's value and therefore its potential to increase its asset base. Not only that, revaluation is also applied in order to influence the reporting of profitability so that it becomes low in the company's financial statements, through larger depreciation, or with an increased asset base to measure return on equity. This study is consistent with the research of Tay (2009), Seng and Su (2010), which found that the fixed asset intensity was significantly positive for the choice of the company's fixed asset revaluation model.

#### **The Ownership Structure Affects Asset Revaluation**

The results showed that the ownership structure with foreign ownership proxy affects and positively affects asset revaluation because the t value of satis is greater than 1.96. The study in line with this research is to explain that the foreign ownership of Piera, (2007) have a positive effect on asset revaluation so that high level of foreign ownership will increase asset revaluation

#### **Liquidity Affects on Fixed Assets Revaluation Decision**

The liquidity variable measured with the current ratio and quick ratio have no effect and positive on asset revaluation because liquidity value less than 1.96. This result is in accordance with the research of Seng and Su (2010) which found no significant effect of decreasing operating cash flows on the revaluation of fixed assets.

### **Firm Size Affects on Decision Revaluation of Fixed Assets**

The firm size variable measured by the natural logarithm of the total asset tidak berpengaruh dan positif terhadap revaluasi aset karena nilai t statistic lebih kecil dari 1.96. Hence, it can be concluded that hypothesis a is rejected, it indicates that firm size has no positive effect on fixed asset revaluation decision in Indonesia. That is, the larger the size of the company the less likely the company to revalue its fixed assets. This means that it may happen, where the revaluation done by the company in Indonesia is upward revaluation, which means that the difference between the book value and the revaluation value will result in the increase of comprehensive balance of profit in the company. This causes large companies can not avoid the established tax. The existence of the PMK tax regulation No.191 / 2015 which imposes a final tax of 3% to 6% on the difference in the revaluation of the fair value of the asset allows the company to prefer the cost model to avoid the risk of being subject to tax regulation which leads to an increase in tax payments.

### **5. Research limitations**

Companies listed on the Indonesia Stock Exchange do not all revalue assets, so the sample obtained is very limited when compared to publicly listed companies listed on the IDX.

### **6. Conclusion**

The results show that investment opportunity represented by market book value of asset has no effect on asset revaluation. Leverage represented by debt equity ratio and debt asset ratio has no effect on asset revaluation. The asymmetric information represented by the bid ask has no effect on asset revaluation. The ownership structure represented by foreign ownership positively affects asset revaluation. Liquidity represented by current ratio and quick ratio has no effect on asset revaluation. The size of the firm represented by total assets has no effect on asset revaluation.

### **Managerial Implications**

Further research is expected to examine other variables that may influence the decision to revalue fixed assets. The independent variables in the suggested research are corporate taxation and corporate governance mechanisms such as audit quality, board of commissioners or independent commissioners.

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