Revaluation Asset Determinants toward Company's Value

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ABSTRACT: This study's objective is twofold. The first is to determine the effect of the investment opportunity set, leverage, and liquidity on fixed asset revaluation decisions. The second objective is to examine the effect of fixed asset revaluation decisions on firm value listed on the Indonesia Stock Exchange. The research method used is a quantitative method with statistical hypothesis testing through multiple linear regression (simultaneous and partial significance tests). The number of samples studied was 110, using panel data from 2016–2019. The results of the first stage of the study show that at the 5% significance level, the investment opportunity set and partial leverage have no effect on the revaluation of fixed assets, but liquidity has a significant negative effect on the revaluation of fixed assets. Meanwhile, the results of the second stage of the study show that the investment opportunity set has no significant effect on firm value, but leverage, liquidity, and fixed asset revaluation partially affect firm value.

KEYWORDS: Revaluation, Fixed Asset, Company Value, Investment Opportunity Set, Leverage, Liquidity.

I. INTRODUCTION

Fixed assets in the company's development from year to year have a growing influence on the company's value. The business world uses the same recording standards to determine the fair value of a fixed asset. By making company financial reporting standards comparable, understandable, reliable, and relevant, which was initiated by the International Accounting Standards Board (IASB), an institution that provides a common understanding for business people all over the world, Indonesia's role as a part of the world's business has also adapted, with the convergence of IFRS into the Statement of Financial Accounting Standards (PSAK) commencing in 2012.

As two internationally recognized standards, GAAP and IFRS have distinct approaches to assessing and recognizing firm assets. In GAAP, property, plant, and equipment are measured using historical cost or the cost of property, plant, and equipment, but in IFRS, property, plant, and equipment are assessed using fair value or fair value. PSAK was adapted from IFRS in Indonesia on January 1, 2012, so that firms in Indonesia analyze and record assets from historical cost to fair value. This amendment affects the regulation of the financial statements' recognition, recording, reporting, and disclosure of property, plant, and equipment.

One of the topics that has attracted attention in the convergence process is fixed assets. According to the principal base adopted by IFRS, fixed assets can be revalued. Thus, historical cost is not the only method of recording.

Fixed assets play an essential role in the day-to-day operations of a business. According to PSAK No. 16, the entity selects either the cost model or the revaluation model as its accounting policy and applies it to all fixed assets in the same group (IAI, 2012). Property, plant, and equipment are carried at cost after being registered as an asset, less any accrued depreciation and any accumulated impairment losses on the asset. The revaluation model should be recorded at the revaluation amount, which is the fair value at the revaluation date less accumulated depreciation and accumulated impairment losses after the revaluation date, after recognition as an asset, property, plant, or equipment whose fair value can be measured reliably. Revaluations are performed on a regular basis to verify that the carrying amount at the end of the reporting period does not change considerably from the amount estimated using fair value. Fixed assets play an essential role in the day-to-day operations of a business.

II. LITERATURE REVIEW

Revaluation Fixed Assets: Theory and Concept

A fixed asset revaluation is a reassessment of the company's fixed assets due to a rise in market value. This policy represents the real status of assets as a result of fixed asset revaluation; assets are reported using market values. The revaluation of fixed

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assets should be good news for the firm's external stakeholders since, in addition to motivating a growth in corporate performance, it is reflected in the company's profit and share price.

A. Investment Opportunity Set and Revaluation Fixed Assets

The investment opportunity set has an impact on the company's decision to reassess fixed assets. The result indicates a negative influence, indicating that the greater the investment decision, the higher the fixed asset decision. Tay (2009) and Choi (2013) explain that market to book equity has a negative effect on asset revaluation, so the higher the market to book equity, the lower the asset revaluation ability, whereas Peasnel (2000) explains that the market to book ratio has a positive effect, so the higher the market to book ratio, the higher the asset revaluation ability. The bigger the market-to-book ratio, the greater the asset revaluation. The following theories are offered in this study:

H1: There is an influence of investment opportunity set on the revaluation of fixed assets

B. Leverage and Revaluation Fixed Assets

Leverage refers to all firm assets and financial risks that will be a burden on the company in the future, affecting revenue. Companies that finance their investments with a large debt structure are deemed risky. Companies with a high degree of debt will seek to revalue their assets in order to improve the company's viability in the viewpoint of creditors. According to Barac and Sodan (2011), leverage has a positive effect on asset revaluation. This demonstrates that the more the leverage, the greater the asset revaluation, however Cahan et al. (2004) explain that leverage has a negative influence on asset revaluation, therefore the greater the leverage, the more asset revaluation will fall. The following hypothesis is proposed in this study:

H2: There is an effect of leverage on revaluation of fixed assets

C. Liquidity and Revaluation Fixed Assets

The decision of revaluation technique is significantly influenced by liquidity. Revaluations assist in providing more up-to-date information on the amount of cash that may be gained from the sale of assets, therefore increasing the company's borrowing capacity and lowering borrowing costs. Organizations with limited liquidity prefer to use the revaluation approach, but companies with strong liquidity levels do not need to re-evaluate fixed assets. According to Manly (2008) and Tay (2009), the current ratio has a negative effect on asset revaluation, so the higher the current ratio, the lower the asset revaluation. While the lower the current company's cash, the higher the asset revaluation (Barac & Sodan, 2011; Seng & Su, 2010). The formulating hypothesis in this section is:

H3: There is a significant influence of leverage on revaluation of fixed assets

D. Investment Opportunity Set and Company's Value

The direction of the company's performance in reaching its goals is determined by the success of the investment. Investment decisions are made with the goal of improving the company's worth. According to Fenandar and Raharja (2012), investors' appraisal of a high business value will promote investment, and the value of the investment will make it simpler for the firm to boost growth. This study's stated hypothesis is:

H4: There is an influence of investment opportunity set on firm value

E. Leverage and Company's Value

According to Asgharian (2003), if a firm with high leverage loses market share due to high risk from its consumers or an aggressive reaction from its competitors (customer-driven or competitor-driven), this company should have lower profitability and corporate value. If, on the other hand, the fall in sales is due to management motivation, then a better degree of profitability and firm value is projected. As a result, the amount of leverage can have a two-way impact on firm value, which can be good or negative. The following hypothesis to be tested is this topic is:

H5: Leverage has an influence on business value.

F. Liquidity and Company's Value

Liquidity with the Quick Ratio (QR) proxy for firm value indicates that the size of the company's ability to fulfil its obligations without taking into account inventory, because inventory takes a relatively long time to be realized into cash, hence it has an impact on increasing company value (Wahyudi, 2012). Firm value is very important because high firm value will be followed by high shareholder prosperity (Brigham and Houston, 2006), thus the higher the stock price, the higher the firm value. While the quick ratio (quick ratio) is more describing the company's ability to meet the needs of working capital in a faster time (Kretarto, 2001). The proposed hypothesis in this theme is:

H6: There is an effect of liquidity on firm value

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G. Revaluation Fixed Assets and Company's Value

Atkinson Atkinson (2002) states that the greater the assets owned, the greater the possibility of the company generating income. This is very possible to happen because the future operating profit depends on the amount of assets owned. The value of assets that have been revalued can be the basis for better predicting future performance because the value already shows the present value. The hypothesis therefore is:

H7: There is an effect of fixed asset revaluation on firm value

Based on theoretical reviews and literature studies regarding revaluation of fixed assets, firm value, investment opportunity set, leverage, and liquidity, the following research model is presented as follows:
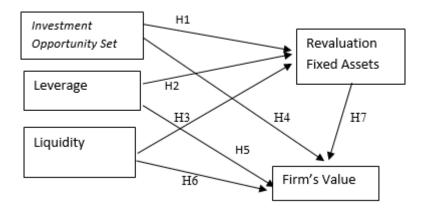

Figure 1. Research model

III. METHODOLOGY

A. *Research Design*

The research method used is a quantitative method with descriptive approach in order to test the theory or hypothesis (support or reject). Description approach is intended to explore for more information and data on matters that have not been investigated. The results of this study are expected to provide an accurate explanation of the research goals to be achieved.

B. *Population and Sampling Procedure*

The population in this study are companies that have done asset revaluation and listed on the Indonesia Stock Exchange (IDX) during the period 2016 to 2019. The determination of the sample used was purposive sampling.

C. *Analysis Techniques*

The analysis technique used in this study is panel data regression, which combines time series data with cross-section data. Panel data consists of several individual units observed over a certain period. If each cross-section unit has the same number of time-series observations, it is called a balanced panel, while if it is different for each cross-section unit, it is called an unbalanced panel.

This method using panel data can be used to overcome various data problems in the time series such as the lack of a number of research time periods and also to overcome the problem of lack of observation units in cross section data, therefore better estimation results are obtained through increasing the number of observations that have an impact on increasing degrees of freedom. This panel data is also intended to increase the number of research observations when using time series or cross section data the number of observations is limited.

D. *Robustness Test*

Normality, multicollinearity, heteroscedasticity, and autocorrelation tests are used to examine the conventional assumptions in the first stage. The empirical data used in this study reveals that the research model met all of the assumptions, allowing for the interpretation of the panel data regression equation.

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E. *Variable Operations*

Table 1. Variable operationalization

Variable	Proxy	Measurement	Scale
Assets revaluation	Total of Assets Revaluation	Total of Assets revaluation = Total of Assets revaluation logarithm	Ratio
Firm's value	Tobins'Q	Tobins'Q = $\dfrac{\text{Market capital ration + total liability + inventory} - \text{current asset}}{\text{Total assets}}$	Ratio
Investment Opportunity Set	MBVE	MBVE = $\dfrac{\text{Share outstanding x Stock Closing Price}}{\text{Total equity}}$	Ratio
Leverage	DAR	DAR = $\dfrac{\text{Total of debt}}{\text{Total Assets}}$	Ratio
Liquidity	QR	QR = $\dfrac{\text{Current asset - inventory}}{\text{Current debt}}$ x 100 %	Ratio

IV. Hypotheses test

To test the simultaneous significance of the effect of independent variables on the dependent variable, the F test was applied. Meanwhile, to partially test the significance of the effect of the independent variables on the dependent variable, the t-test was performed. While the multiple regression analysis was implemented in 2 stages, stage 1 was used to determine whether there is an influence of the 3 independent variables on the dependent variable. Stage 2 is used to determine whether there is an influence between the 4 independent variables on the dependent variable, namely firm value.

Table 2. Assessment stage 1 results (Goodness of Fit)

Hypotheses test	Coefficient	Std. Error	t value	Sign
Constant	5.059	1.637	3.092	.003
IOS	.007	.011	.687	.494
DAR	3.653	1.923	1.900	.060
QR	10.294	3.189	3.227	.002
R Square	.122			
Adjusted R Square	.097			
F Statistic	4.896			
Significance of F Statistic	.003			

a. Dependent Variable: Assets revaluation

Statistical parameters indicate that the probability value of the investment opportunity set of 0.494 is greater than 0.05 so that H01 is accepted. This indicates that the investment opportunity set has no significant effect on asset revaluation. While the probability value of 0.06 leverage is greater than 0.05, the decision H02 is accepted, which means that leverage has no significant effect on asset revaluation. The liquidity probability value of 0.002 is smaller than 0.05, so H03 is rejected, which means that liquidity has a significant effect on asset revaluation.

Table 3. Assessment stage 2 results (Goodness of Fit)

Hypotheses test	Coefficient	Std. Error	t value	Sign
Konstan	6.288	.327	19.203	.000
IOS	.004	.002	1.802	.074
DAR	-1.291	.375	-3.446	.001

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QR	-6.730	.641	-10.506	.000
Revaluasi Aset	-.054	.019	-2.893	.005
R Square				
Adjusted R Square				
F Statistic				
Significance of F Statistic	0.0000			

a. Dependent Variable: TOBINS'Q

Based on statistical parameters, table 3 shows the probability value of the investment opportunity set of 0.074 which is greater than 0.05, so the hypothesis H04 is accepted. This illustrates that the investment opportunity set has no significant effect on firm value. The probability value of leverage of 0.001 which is smaller than 0.05, thus H05 is rejected. This indicates that leverage has a significant effect on firm value. The liquidity probability value is 0.000 which is smaller than 0.05, so the decision of H06 is rejected. This implies that liquidity has a significant effect on firm value. The asset revaluation probability value is 0.005 that is smaller than 0.05, hence the decision H07 is rejected. This means that asset revaluation has a significant effect on firm value.

V. CONCLUSION

1. Investment opportunity set has no effect on fixed asset revaluation. Fixed asset revaluation is defined as a revaluation that can cause the value to be higher or lower. This is performed if there is a difference between the market value and the recorded value on the company's balance sheet. In the revaluation model, the cost of the asset incurred is adjusted if it increases or decreases depending on its fair value. When the asset value increases, it will be credited into the revaluation reserve and when it decreases it will be debited so it will not be taken into account in investment opportunities.

2. Leverage has no effect on fixed asset revaluation. This statement implies that companies with high debt levels will not decide to revalue their assets to increase the company's feasibility before creditors. Companies with high debt ratios will not revalue assets even though revaluation can reduce the value of debt ratios.

3. Liquidity has a positive and significant effect on asset revaluation. This indicates that asset revaluation can help provide more actual information about the amount of cash that can be received when selling assets so that it can help increase the company's borrowing capacity and reduce borrowing costs. The choice of revaluation method tends to be carried out by companies with low liquidity, while companies with high liquidity levels do not need to re-evaluate fixed assets.

4. Investment opportunity set has no effect on firm value. This shows that the signal for company growth as reflected in the high level of Investment opportunity set is not being responded to by the market. There are several reasons behind this, first because investors do not always consider the company's investment opportunity set in their investment decisions because investors might think that it is not guaranteed that the company's growth increases in the future. In addition to this, not all market participants use financial statement information carefully in making decisions, they probably rely more on technical analysis.

5. Leverage has a negative effect on firm value. This relationship is built based on the Trade off Theory. The capital structure in the trade off theory model states that the amount of debt that increases and exceeds the stipulated limit will reduce the value of the company.

6. Liquidity has a significant effect on firm value. Companies that have a good level of liquidity indicate the ability to meet financial needs. Liquidity is the basis for determining funding development policies from time to time so that it can increase investor confidence to invest or invest in the company..

7. Fixed asset revaluation has a negative effect on firm value. This result indicates that high asset revaluation can trigger a decline in firm value. The addition of the company's asset value that does not come from the purchase of new assets, but from old fixed assets which are then revalued in the present time. This condition basically does not add to the value of the company even though on paper there is a change in value so that it can trigger a decrease in the desire of investors to invest.

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