

Fixed Asset Revaluation: Decision Making

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Abstract: *This study aims to determine the effect of leverage, liquidity, fixed asset intensity, and size of the company against the decision to revalue fixed assets. The research was conducted at a manufacturing company listed on the Indonesia Stock Exchange in 2012 until 2016 as many as 550 units of analysis and the sample is collected by using purposive sampling technique which the samples were chosen selectively. By using logistic regression, the result of this research is fixed asset intensity and firm size have positive effect to revaluation decision. Liquidity and leverage have no effect on the decision to revalue fixed assets. The conclusions of this study are companies that have high fixed assets and companies with a large percentage of sales are more likely to revalue fixed assets.*

Keywords: Revaluation, Leverage, Liquidity, Fixed Asset Intensity, Company Size

1. Introduction

Fixed assets are important component in the company activities. Yusuf (2007), fixed assets are tangible assets that are used in the company operations and they do not intended to be sold in the framework of the companies normal activities. the characteristics of tangible fixed assets according to Mulya (2013) are: (1) long-term benefits, (2) clear physical, (3) not intended for sale, (4) used to support the companies operations.

Revaluation is the revaluation of a company's fixed assets due to an increase in the value of the fixed assets on the market or due to the low value of fixed assets in the company's financial statements caused by devaluation or other causes, so that the value of fixed assets in the financial statements no longer reflects fair value (Waluyo&Ilyas , 2002: 141). Fair value is the price that will be paid to sell an asset or the price to be paid to transfer a liability in regular transactions between market participants at the measurement date (PSAK 68: Fair Value Measurement). Since the early 1980s the International Accounting Standards Board (IASB) has begun to increase the use of fair values in accounting reporting. Fair value advocates believe that capital markets and other users of financial statements require more accurate measurement of values.

Affecting factors of the fixed asset revaluation become interesting to be research. Previous research examines several variables that are predicted to be factors that influence revaluation with mixed results. For example Watts and Zimmerman, (1990); Brown et al., (1992); in Tay (2009) fixed asset revaluation decisions including the desire to increase loan capacity, threat of expropriation, issuance of bonus shares, debt agreement violation decisions, strike, debt, decrease in operating cash flows, growth prospects and liquidity (Lin and Peasnell, 200a Tay, 2009) debt level guarantees (Firmansyah and Sherlita, 2012) foreign operations (Iatridis and Kilirgiotis, 2012), ownership control, international stakeholders, and investment opportunities (Missonier and Piera, 2007).

Previous research, RestiYulistia et al. (2015), proved that the revaluation of fixed assets in manufacturing companies in Indonesia during the 2012 and 2013 periods, overall after logistic regression, their research seemed to fail in proving

that leverage factors, decreasing operating cash flows, company size and asset intensity affects the manager's choice to upward revaluation. their research also failed to prove that the manager's motivation to do asset revaluation was influenced by contracting factors, political factors and asymmetry information. Andison (2015) concludes that for leverage and market to book ratio variables have a positive effect on asset revaluation policy. Whereas for variable liquidity has a negative and insignificant effect on company policy to carry out asset revaluation.

The size of the company has been studied by Manihuruk and Farahmita (2015) with the results of the influence of the firm's size on the revaluation of fixed assets. But Firmansyah and Sherlita (2012) found that company size does not affect revaluation. The proportion of fixed assets illustrates the portion of fixed assets in the composition of the company's assets. Tay (2009) managed to find evidence that the greater the proportion of fixed assets, the greater the company's decision to revalue fixed assets. Although Seng and Su (2010) found evidence that the size of the fixed assets portion is not a motivation for management to revalue fixed assets.

From the differences in the results of previous research, the background of the writer to formulate the problem in this study is whether it is leverage. Liquidity. Fixed asset intensity. And the size of the company influences the decision on fixed asset revaluation.

2. Literature Review

Positive Accounting Theory

The purpose of positive accounting theory is to explain and predict management standard choices through an analysis of the costs and benefits of disclosing certain financial information in relation to various individuals and allocating economic resources. The accounting policies applied by companies do not have to be the same as others. However, companies are given the freedom to choose one of the policy alternatives available to maximize their value guided by the assumption of contract theory.

The implication of this theory is as stated by Azouzi and Jarbou (2012) that positive accounting theory is used to explain motivation to revalue fixed assets. This study

refers to positive accounting theory that is trying to explain the situation and conditions of the company which is the reason managers reevaluate fixed assets and predict the expected consequences of the decision to do a revaluation. Seng and Su (2010) state that managers' choices in accounting methods can be influenced by economic incentives.

Agency Theory

The implication of this theory is that information asymmetry between agent and principal becomes one of the determinants of the choice of accounting method. The presence of asymmetry in accounting information generally refers to situations where external users of financial statements cannot obtain complete information about the company because of the gap between reported information and the actual economic reality of the company (Brown et al., 1992 in Seng and Su, 2010). Setiany and Wulandari (2015) Stating the quality of financial reporting proved to have a negative effect on the level of information asymmetry. The results of his research showed that improving the quality of financial reporting proved to be able to reduce the level of information asymmetry. Farahmita and Siregar (2012) state that the condition of information asymmetry underlies management to choose accounting methods that can help inform the market about the company's "true value". The expectation that high information asymmetry has a positive effect on the possibility of management choosing a fair value method (Quagli and Avallone, 2010 in Farahmita and Siregar, 2012).

Fixed Asset Revaluation

Fixed asset revaluation is a revaluation of fixed assets recorded in the company's book and is still used for the company's operational activities. The purpose of revaluation is that the values listed in the company's books or company financial statements are in accordance with the fair value that applies at the time of the revaluation.

Fair value is the price that will be received to sell an asset or the price to be paid to transfer a liability in a regular transaction between market participants on the measurement date (PSAK No.68: Fair Value Measurement). This fair value is determined by professionally qualified assessors based on market evidence. If there is no fair value, then use the income approach or replacement costs that have been depreciated. If an asset is revalued, all fixed assets in the same class must be revalued. A class of fixed assets is a grouping of assets that have similar uses in the entity's operations.

Assets in a class of fixed assets are revalued simultaneously to avoid selective asset revaluation and mix of acquisition costs and other values on different dates. However, an asset class can be revalued alternately as long as the revaluation of the class of assets can be completed completely in a short period and as long as the revaluation is updated.

Affecting Revaluation Factors of Fixed Assets

Leverage

Leverage describes the proportion of debt to assets or equity (Murhadi, 2015: 61). The indicator of measurement is to

compare total debt with total assets. The leverage ratio measures the extent to which a company funds its business by comparing between its own funds (shareholders equity) that have been deposited with the amount of loans from creditors. The creditors will see or analyze how much of their own funds have been deposited (supplied funds) as a margin of safety, which is a safe limit for the bad possibilities that occur. If the company owner only has his own funds with a small portion of the amount of funds needed, then the creditor has a large burden or risk. Leverage ratio is a consideration for companies in the decision to evaluate or not revalue fixed assets.

Liquidity

The size of liquidity is very important in the analysis of a company. The importance of liquidity is seen by considering the impact that comes from the inability of the company to meet its short-term obligations. A high level of liquidity indicates that the company has a greater ability to meet its short-term obligations. The implications include the company's inability to fulfill contracts and damage important relationships with customers and suppliers. For creditors, a lack of liquidity can cause delays in interest payments and loan principal or cannot even be billed at all. The measurement indicator for liquidity is by comparing total current assets with current debt.

Fixed Asset Intensity

The proportion of fixed assets (Fixed Asset Intensity) is the proportion of company assets consisting of fixed assets (Tay, 2009). The definition of fixed assets according to PSAK No.16 is tangible assets that: a) are owned for use in production or the supply of goods or services to be broken down to another party, or for administrative purposes, and b) are estimated to be used for more than one period. The company has total assets consisting of various asset components. Assets still have a significant role in supporting the company's operational activities. Although fixed assets experience depreciation over the economic useful life. The value of the investment invested in fixed assets is relatively large and fixed assets are the assets of the company that absorb most of the company's capital, because in terms of the amount of funds to obtain fixed assets, relatively large funds are needed (Ernawati, 2014). The measurement indicator to measure the proportion of fixed assets is by comparing total fixed assets with total assets.

Firm Size

one of the measurement indicators for a company size variable is to look at total sales. If sales are greater than variable costs and fixed costs, then the amount of income before tax will be obtained. Conversely, the amount of sales is smaller than the variable costs and fixed costs, the company will suffer losses. The greater the total sales, the more money will be circulated and the easier the market capitalization will be, the greater the company will be known to the public (Hilmi and Ali, 2008). Large companies have a greater probability of winning the competition because it is easier to enter the market, obtain a high level of income so that it affects the profitability which can later increase the prosperity of the owner.

Formulation of the hypothesis

Effect of leverage on fixed asset revaluation

Based on positive accounting theory, trying to explain the manager's decision to do a revaluation related to his motivation to reduce leverage. Revaluation will increase the value of assets and can strengthen some financial ratios, especially the debt to asset ratio and debt to equity ratio. The leverage ratio drops so that it reduces the risk of the company in the eyes of the creditor because the asset position becomes stronger (Jaggi and Tsui, 2001). Conversely, companies with low leverage tend not to revalue fixed assets because the company's financial position is good enough. The author argues that management in companies with high leverage is more likely to revalue fixed assets, as evidenced by Seng and Su (2010), Manihuruk and Farahmita (2015), and Iatridis and Kilirgiotis (2012). Then the hypothesis proposed by the author is:

H1: Leverage has a positive effect on the decision to revalue fixed assets..

Effect of liquidity on fixed asset revaluation.

Positive accounting theory tries to explain (to explain) and predict (to predict) the choice of the best accounting methods that will be applied when faced with a situation of low liquidity. If associated with revaluation, liquidity is predicted to have a negative influence, namely companies with low liquidity, motivated to do a revaluation, because revaluation helps increase more actual information about the amount of cash received from the sale of fixed assets and thus can help increase the company's loan capacity and reduce borrowing costs (Tay, 2009). Manihuruk and Farahmita (2015) have succeeded in proving this. Therefore, the researchers argue that companies with low liquidity are more likely to revalue fixed assets.

H2: Liquidity has a negative effect on the decision to revalue fixed assets.

Effect of the fixed asset intensity on fixed asset revaluation.

Positive accounting theory is also implemented in the form of opportunistic management actions when choosing an accounting method to measure fixed assets after initial recognition. Management seeks to maximize their usefulness by analyzing the costs and benefits of a revaluation decision. The process and costs of conducting a revaluation are large enough, so that the revaluation decision will be valuable when the fixed assets have a large portion of the asset component. Revaluation allows a significant increase in assets. The argument is that fixed assets can describe cash expectations that will be received if the fixed assets are sold. Thus, companies with a large proportion of fixed assets will use the method of measuring and recognizing fixed assets that better reflect the true value of assets (Manihuruk and Farahmita, 2015). Creditors see a strong asset base, will increase the level of creditor trust so they want to loosen loan capacity. Loans obtained can be used to finance company operations.

H3: The proportion of fixed assets has a positive effect on the decision to revalue fixed assets.

Effect of the Firm Size on Fixed Asset Revaluation

The size of the company as a proxy for political factors is an important factor related to the decision to revalue fixed assets (Seng and Su, 2010). Political costs are related to third parties who have an interest in the company's financial statements. The revaluation of fixed assets tends to be chosen by management to realize the hypothesis of political costs when faced with an opportunistic situation of choosing a method of measuring fixed assets. Iatridis and Kilirgiotis (2012) and Seng and Su (2010) succeeded in proving that firm size has a positive effect on fixed asset revaluation. Whereas small companies have small sales or assets. Improper revaluation is carried out because the addition of depreciation costs and taxes on revaluation will further reduce reported earnings.

H4: Firm size has a positive effect on the decision to revalue fixed assets

Research Design

This research is a type of quantitative research with hypothesis testing study design (testing hypotheses), to examine the effect between hypothesized variables. The sample was collected using purposive sampling technique where the sample was selected selectively in manufacturing companies listed on the Indonesia Stock Exchange from 2012-2016. The sample in this study were 110 companies for 5 years of research. The company is selected based on the completeness of the financial statements on the Indonesia Stock Exchange.

3. Result

Companies with low leverage tend not to revalue. Low leverage shows that the debt owned by the company is low, meaning that the company has a large equity to finance its activities. Thus the creditor sees that the company's financial condition is quite good. The author has succeeded in proving that management in high leverage companies is more likely to revalue fixed assets, as found by Manihuruk and Farahmita (2015), and Iatridis and Kilirgiotis (2012).

Liquidity does not affect the decision to make a revaluation allegedly because management is doubtful about the benefits of revaluation of fixed assets. Although revaluation informs the fair value of fixed assets that represent the amount of cash that will be received, the information is less useful as long as the fixed assets are not in a position to sell. Because revaluation policy does not have a real impact on the company's cash flow. When knowing low liquidity, management may think more to prioritize policies that have a direct impact on cash / current assets so that it can improve liquidity for example, focus on receivables management and inventory management. The management did not have time to think deeply and did not pay attention to the method of measuring fixed assets as they would choose.

The proportion of fixed assets is measured by calculating the percentage of fixed assets from total assets. Logistic regression test table shows a significance value of 0.011 < 0.05. H3 is accepted, meaning that the size of the fixed assets will affect the decision to revalue. This is not in line with the research of Seng and Su (2010), Khairati (2015) and Yulistia et al (2015), Sri Hastuti (2016) who found no

influence of the proportion of fixed assets on fixed asset revaluation. The size of the proportion of fixed assets will be the basis for management's consideration in carrying out opportunistic actions, namely choosing the revaluation method as a method of measuring fixed assets after initial recognition. Assets are still used in most of the company's operations, this will be a consideration for the company in revaluing its fixed assets.

The size of the company proxied by total sales affects fixed asset revaluation decisions. Sales in manufacturing companies lead to income received from its main activities, in the form of revenue from the sale of production goods. Corporate income is in the large category. As a result, the decision to revalue fixed assets can be predicted through revenue. Therefore the management can consider the size of the company proxied by sales as a factor that influences the decision to revalue fixed assets. the results of this study are not in line with previous research, As mentioned by Nurjanah (2013) the size of the company does not affect the revaluation decision because an increase in revaluation is subject to a final tax of 10%, so that the initial revaluation goal to save tax is meaningless because it is followed by a tax increase from increase revaluation. Revaluation can increase the value of assets, so that the asset position becomes stronger and bigger. This can trigger more supervision from the government which is contrary to the initial motivation to do a revaluation is to reduce profits in order to reduce government supervision and attention. Consistent with the results of Yulistia et al (2015), Firmansyah and Sherlita (2012), Seng and Su (2010) who get the same results.

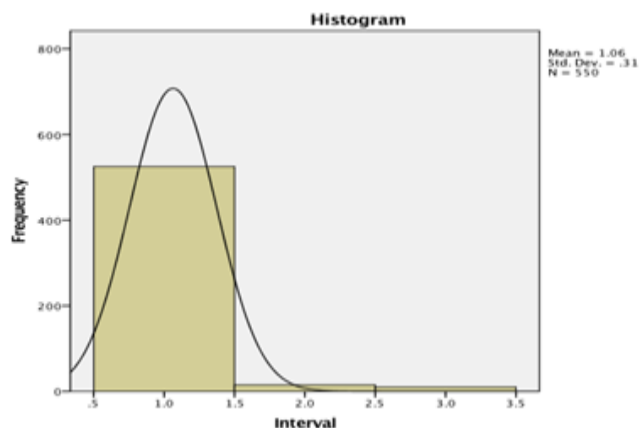
Table and Picture

Table 1: Fixed asset revaluation frequency

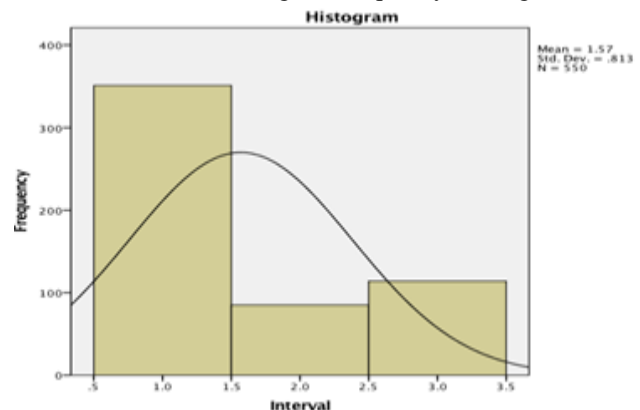
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non revalue	481	87.5	87.5	87.5
	Revalue	69	12.5	12.5	100.0
	Total	550	100.0	100.0	

Table 2: Statistikdeskriptif test

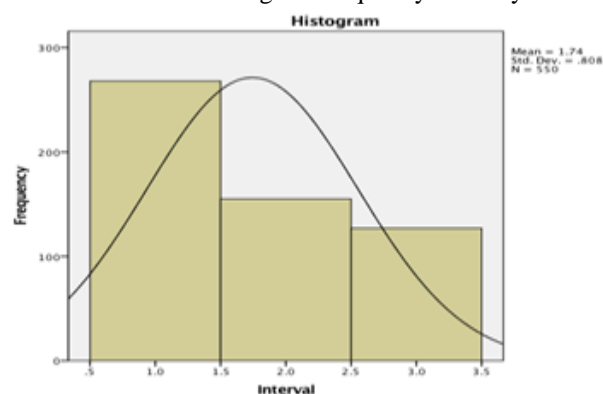
	N	Minimum	Maximum	Mean	Std. Deviation
LEV	550	.04	5.06	.55	.639
LIK	550	.11	15.16	2.17	1.999
PAT	550	.01	.95	.33	.470
UKP	550	9.38	19.12	14.42	1.741
Valid N (listwise)	550				



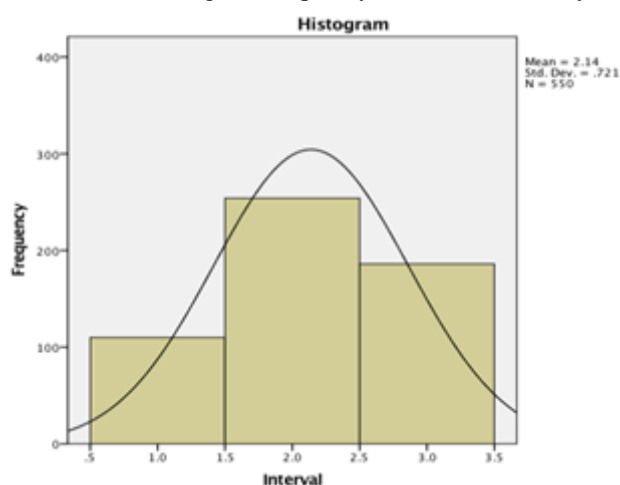
Picture 1: Histogram frequency leverage



Picture 2: Histogram frequency likuidity



Picture 3: Histogram frequency fixed asset intensity



Picture 4: Hostogram Frequency firm size

Table 3: Overall fit model test (constant)

Iteration		-2 Log likelihood	Coefficients	
			Constant	
Step 0	1	428.669	-1.498	
	2	415.641	-1.882	
	3	415.419	-1.940	
	4	415.419	-1.942	
	5	415.419	-1.942	

Table 4: Overall fit model (all of independent variable)

Iteration		-2 Log likelihood	Coefficients				
			Constant	LEV	LIK	PAT	UKP
Step 1	1	421.719	-2.601	.042	-.024	.221	.073
	2	404.350	-3.989	.065	-.065	.397	.142
	3	403.384	-4.440	.054	-.107	.444	.172
	4	403.368	-4.465	.048	-.118	.443	.175
	5	403.368	-4.465	.047	-.118	.443	.175

Table 5: Result of Fit Test

Step	Chi-square	df	Sig.
1	7.328	8	.511

Table 6: Coefficient Determination

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	399.609 ^a	.028	.053

Table 7: Logistic Regression Result

Step		B	S.E.	Wald	df	Sig.	Exp (B)	95% C.I.forEXP(B)	
								Lower	Upper
Step 1 ^a	LEV	-.018	.338	.003	1	.956	.982	.506	1.903
	LIK	-.047	.108	.195	1	.659	.954	.772	1.178
	PAT	1.834	.718	6.530	1	.011	6.261	1.533	25.570
	UKP	.199	.078	6.501	1	.011	1.221	1.047	1.423
	Constant	-5.526	1.359	16.532	1	.000	.004		

4. Conclusion

Based on the results of the testing and discussion that the author has done, it can be concluded that

- 1) Leverage does not affect the decision to revalue fixed assets. Companies with low leverage tend not to do a revaluation.
- 2) Liquidity does not affect the decision to revalue fixed assets. This is because management is still uncertain about the benefits of fixed asset revaluation.
- 3) Fixed Asset Intensity has a positive effect on the decision to evaluate fixed assets. The large proportion of fixed assets can influence the company's decision to revalue.
- 4) Company size has a positive effect on the decision to revalue fixed assets. The decision to evaluate fixed assets can be predicted through total sales. Companies with a large number of big sales are more likely to do a revaluation.

5. Suggestion

The next research is expected to examine other variables that are possible to influence the decision to revalue fixed assets. There are only 4 independent variables in this study, namely leverage, liquidity, fixed asset intensity, and company size. Other variables that can be examined for further research such as international stakeholders in

different business sectors by adding another proxy in variable measurement. For example in non-manufacturing, construction, or other financial institutions.

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