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THE IMPLEMENTATION OF FAIR VALUE IN REDUCING THE GAP BETWEEN BOOK VALUE AND MARKET VALUE FOR INDUSTRIAL SECTOR COMPANIES ON THE INDONESIA STOCK EXCHANGE

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Abstract:
This study examines differences between book value per share (BVPS) and market value per share (MVPS) among Industrials firms listed on the Indonesia Stock Exchange during two stages of IFRS convergence. The study applies a quantitative comparative approach using secondary data from annual financial statements and year-end closing share prices. The observation period is divided into a transition period and a full-adoption period. Descriptive statistics and normality tests are conducted before hypothesis testing. Because the data are not normally distributed, the Mann–Whitney U test is used. The results show a statistically significant difference between BVPS and MVPS during the transition period. In contrast, no statistically significant difference is found during the full-adoption period. The findings indicate that the relationship between accounting-based book value and market-based valuation differs across the observed stages of IFRS convergence. The results should not be interpreted as evidence that IFRS alone caused the observed pattern because market value is also influenced by investor expectations, firm prospects, risk, and broader market conditions.

Keywords: Book Value, Market Value, IFRS Convergence, Fair Value, Value Relevance, Indonesia

INTRODUCTION

The development of the Indonesian capital market has increased the need for accurate and reliable accounting information. Financial statements provide investors with information for assessing corporate performance and prospects before making investment decisions. One indicator of accounting information quality is value relevance, or the extent to which accounting information is associated with firm value in the capital market. However, book value recorded in financial statements does not necessarily equal market value because the two measures are based on different information and measurement perspectives.

Historically, the use of historical cost may cause accounting figures to lag behind current economic conditions. The development of International Financial Reporting Standards (IFRS), including the wider use of fair value measurement, has therefore been associated with efforts to provide more relevant and comparable financial information. Barth et al. (2001) emphasize the importance of the value-relevance literature for accounting standard setting, while Barth et al. (2007) provide evidence linking international accounting standards with accounting quality. Fair value information may also differ in its usefulness depending on the observability of the measurement inputs, as shown by Song et al. (2010).

The consequences of IFRS convergence are not uniform across countries and institutional environments. Chebaane and Othman (2014) report a positive association between IFRS adoption and the value relevance of earnings and book value in emerging markets, while Elbakry et al. (2017) find a shift in the contribution of accounting information to market valuation in Germany and the

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United Kingdom. In Indonesia, Lestari and Takada (2015), Juniarti et al. (2018), Cahyonowati and Ratmono (2013), and Suprihatin and Tresnaningsih (2013) provide evidence on the value relevance of accounting information during the convergence process, whereas Anggraita et al. (2020) report declining value relevance and risk relevance in the Indonesian banking context. These mixed findings suggest that the implications of IFRS convergence need to be evaluated within their specific institutional and market settings.

Indonesia is particularly relevant because the convergence of Indonesian Financial Accounting Standards with IFRS has been implemented gradually. The Indonesian accounting framework has continued to develop its fair value guidance, including the current PSAK 113 on fair value measurement issued by the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia, 2024). IFRS 13 also provides the international framework for fair value measurement (International Accounting Standards Board [IASB], 2011). The gradual nature of convergence provides a setting for examining accounting information across different stages of implementation.

Previous studies have generally assessed value relevance by examining the association between accounting variables, such as earnings and book value, and share prices. This study addresses a more direct comparison by examining whether book value and market value differ during two stages of IFRS convergence. The Industrials sector is selected because previous evidence suggests that the role of book-value information can vary across industries (Chebaane and Othman, 2014). The study therefore compares BVPS and MVPS during the transition and full-adoption periods among Industrials firms listed on the Indonesia Stock Exchange.

Literature review and hypothesis development

Agency theory

Agency theory, developed by Jensen and Meckling (1976), explains the contractual relationship between principals and agents. The separation of ownership and control may create conflicts of interest and information asymmetry because managers generally have more information about the firm's internal condition than shareholders and other external users. Financial reporting is therefore important as a mechanism for communicating information and reducing information asymmetry.

In this study, agency theory provides a basis for understanding the importance of transparent and relevant accounting information. IFRS-based reporting and fair value measurement are expected to improve the relevance of information available to external users. Studies of information disclosure and fair value in Indonesia also show the relevance of disclosure quality to information asymmetry and investor decision-making (Sari et al., 2015). Nevertheless, improved reporting does not necessarily make book value identical to market value because investors incorporate additional information and expectations into market prices.

IFRS convergence, fair value and value relevance

IFRS convergence aims to improve the comparability and relevance of financial reporting. Fair value measurement is relevant to this objective because it incorporates current market conditions into the measurement of particular assets and liabilities. The IASB (2011) defines the framework for fair value measurement through IFRS 13, while Indonesian fair value measurement is governed by PSAK 113 (Ikatan Akuntan Indonesia, 2024). Evidence on the value relevance of fair value information remains mixed and depends on the characteristics of the measured items and the observability of measurement inputs (Song et al., 2010; Filip et al., 2021; Salim, 2024).

The broader IFRS literature also shows varying results. Mechelli and Cimini (2021) demonstrate the importance of corporate governance and investor protection, Alsarayreh et al. (2022) discuss the

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value relevance of IFRS financial-instrument disclosures, and Imhanzenobe (2022) concludes that the effects of IFRS adoption differ across institutional environments. Consequently, IFRS convergence should not be assumed to produce identical outcomes across all firms and markets.

Book value and market value

Book value is an accounting-based representation of shareholders' equity. Ohlson (1995) identifies book value as a central accounting variable in equity valuation. In this study, book value is measured as Book Value per Share (BVPS), calculated by dividing total equity by the number of outstanding shares. Krismiaji and Kusumadewi (2020) also examine the value relevance of earnings and book value among Indonesian listed firms.

Market value reflects the valuation formed by investors in the capital market. Damodaran (2012) explains that firm valuation is related to expectations regarding future cash flows and risk. Accordingly, MVPS in this study is proxied by the year-end closing share price. The market price may differ from book value because it incorporates expectations regarding future growth, profitability, risk and other information not fully represented in the accounting balance sheet.

Hypothesis development

The transition stage represents a period in which accounting standards and reporting practices were undergoing continued adjustment. Prior studies provide mixed evidence regarding whether IFRS convergence improves the value relevance of accounting information (Lestari and Takada, 2015; Anggraita et al., 2020; Chebaane and Othman, 2014; Elbakry et al., 2017). Because book value and market value are derived from different measurement and information perspectives, the first hypothesis is formulated as follows:

H1. There is a significant difference between book value and market value among Indonesian Industrials firms during the IFRS transition period.

During the full-adoption stage, IFRS-based reporting was more deeply embedded in the Indonesian financial reporting environment. However, higher relevance of accounting information does not necessarily imply that book value and market value must be identical because market value also reflects investor expectations and market conditions (Damodaran, 2012; Mechelli and Cimini, 2021). Therefore, the second hypothesis is formulated as follows:

H2. There is a significant difference between book value and market value among Indonesian Industrials firms during the full-adoption period of IFRS-based fair value implementation.

METHOD

This study uses a quantitative comparative approach because the analysis focuses on numerical data and statistical testing to examine differences between two groups of values rather than a causal relationship. The use of quantitative sampling concepts and comparative analysis follows the research design principles described by Pujiono et al. (2023). The population consists of Industrials firms listed on the Indonesia Stock Exchange. Purposive sampling is used based on the availability of the information required to calculate BVPS and obtain year-end closing share prices.

Table 1. Sample selection

No.	Sample criterion	Number of firms
1	Industrials firms listed on the Indonesia Stock Exchange	66
2	Firms excluded because the required data were unavailable	(14)
3	Final sample	52

Source(s): author's own creation

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Variable measurement

Table 2. Variable definitions

Variable	Measurement
Book Value per Share (BVPS)	Total equity divided by the number of outstanding shares.
Market Value per Share (MVPS)	Year-end closing share price used as a proxy for market value per share.

Source(s): author's own creation

Data analysis

The data are analysed using IBM SPSS Statistics. Descriptive statistics are used to summarize the mean, median, standard deviation, minimum and maximum values. The Kolmogorov–Smirnov normality test and homogeneity of variance is also examined as a supporting diagnostic. Because the normality tests indicate non-normal distributions, the hypotheses are tested using the nonparametric Mann–Whitney U test. The use of statistical procedures and interpretation of significance follows the general SPSS analysis framework discussed by Ghozali (2021).

RESULTS AND DISCUSSION

Descriptive statistics

The descriptive results show differences in the central tendency and dispersion of BVPS and MVPS across the observation periods. During the transition period, the mean BVPS is higher than the mean MVPS. During the full-adoption period, the mean MVPS is slightly higher than the mean BVPS. The distributions, however, are highly dispersed, particularly for MVPS, as indicated by the large maximum values and standard deviations.

Table 3. Descriptive statistics of BVPS and MVPS

Period	Variable	Mean	Median	SD	Minimum	Maximum
Transition	BVPS	2,260.1239	652.6400	3,349.67128	4.54	15,353.30
Transition	MVPS	1,461.3432	283.8800	2,418.66954	28.01	11,798.72
Full adoption	BVPS	1,721.4859	243.0900	4,216.72119	13.61	26,211.82
Full adoption	MVPS	1,864.0374	261.0550	11,035.25883	11.00	201,669.00
Overall	BVPS	1,850.7132	261.1300	4,028.96848	4.54	26,211.82
Overall	MVPS	1,767.4250	268.0000	9,691.35286	11.00	201,669.00

Source(s): IBM SPSS Statistics output and author's own creation

Normality and homogeneity tests

The Kolmogorov–Smirnov tests indicate significance values below 0.001 for BVPS and MVPS in the transition, full-adoption and overall samples. Therefore, the distributions are not normal. The visual evidence from the histograms and normal Q–Q plots is consistent with this result. The homogeneity test provides supplementary information about the variance structure; however, because the primary normality assumption is not satisfied, the subsequent hypothesis tests use the Mann–Whitney U procedure.

Table 4. Summary of normality and homogeneity results

Period	Normality result	Levene p-value	Interpretation
Transition	< 0.001	0.053	Variance homogeneous at 5%, distributions non-normal

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Full adoption	< 0.001	< 0.001	Variance not homogeneous, distributions non-normal
Overall	< 0.001	< 0.001	Variance not homogeneous, distributions non-normal

Source(s): IBM SPSS Statistics output and author's own creation

Hypothesis tests

The Mann–Whitney U test produces different results across the two periods. During the transition period, the significance value is 0.010, which is below the 5% level. H1 is therefore supported, indicating a statistically significant difference between BVPS and MVPS. During the full-adoption period, the significance value is 0.979. H2 is not supported because the test does not indicate a statistically significant difference between the two measures. The overall sample also does not show a statistically significant difference (p = 0.161).

Table 5. Mann–Whitney U test results

Period	p-value	Result	Conclusion
Transition	0.010	Significant	BVPS and MVPS differ significantly
Full adoption	0.979	Not significant	No statistically significant difference
Overall	0.161	Not significant	No statistically significant difference

Source(s): IBM SPSS Statistics output and author's own creation

Discussion

The transition-period finding indicates that accounting-based and market-based values differed significantly during the observed stage of IFRS convergence. This result is consistent with the broader literature showing that the effects of IFRS adoption are not uniform and depend on the institutional environment and the type of accounting information examined (Chebaane and Othman, 2014; Elbakry et al., 2017; Imhanzenobe, 2022).

The absence of a statistically significant difference during the full-adoption period suggests that the distributions of BVPS and MVPS were not significantly different in the observed sample. Descriptively, the difference between the mean values is also smaller than during the transition period. This pattern is consistent with the argument that more mature reporting standards may contribute to more relevant accounting information, as suggested by Barth et al. (2007), Lestari and Takada (2015), and Juniarti et al. (2018). However, the result should not be interpreted as proving that IFRS caused the change. Market prices continue to incorporate information about expected cash flows, risk and future prospects that extends beyond book value (Damodaran, 2012).

The findings are also relevant to agency theory. IFRS-based reporting and fair value measurement may reduce information asymmetry by improving the quality and relevance of information available to investors, but they cannot eliminate all differences between internal accounting measurements and market expectations (Jensen and Meckling, 1976). The mixed results in the literature therefore remain important: the usefulness of accounting information is influenced by accounting standards, disclosure, governance, investor protection and the broader institutional environment (Mechelli and Cimini, 2021; Alsarayreh et al., 2022; Sari et al., 2015).

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CONCLUSION

This study compares book value per share and market value per share among Industrials firms listed on the Indonesia Stock Exchange during two stages of IFRS convergence. The results show a statistically significant difference between BVPS and MVPS during the transition period, whereas no statistically significant difference is found during the full-adoption period. The SPSS histograms and normal Q–Q plots further show that the distributions are non-normal, supporting the use of the Mann–Whitney U test.

The findings contribute to the discussion of accounting information relevance by directly comparing accounting-based and market-based measures of firm value. Nevertheless, the results do not establish a causal effect of IFRS because market value is influenced by investor expectations, risk, firm-specific conditions and broader economic factors. Future research may extend the analysis to other sectors, examine changes in the magnitude of the BVPS–MVPS gap across periods, and include additional variables that may explain differences between accounting values and market valuations.

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