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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:
The differences between the value of Before and After convergence of IFRS of these industrials companies listed in Indonesia Stock Exchange (IDX) of Book Value Per Share (BVPS) and Market Value Per Share (MVPS) will be analyzed. Research Type is Quantitative Comparative type, which is based on Secondary data (Endshareprice data in annual and Financial statements). The observation period shall be in a period of transition and in a period of full-adopting. Normality testing and descriptive statistics will be carried out first in order to run testing on hypotheses. Data is not normally distributed; MANN WHTITNEY U test is possible to apply. The result shows that statistically, there are differences between the BVPS and MVPS in the transition period. The difference is not significant, on the other hand, in the period of full-adoption. Results show that a difference between accounting based book value and the market based valuation could be observed within the different levels of the convergence to IFRS of the companies studied. The reason must not be taken as a sole effect of the change in accounting standard (IFRS) and other factors like investor's expectations, condition of the company, risk and market condition should be taken into consideration in interpreting it.

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

INTRODUCTION

This has been motivating to require accounting information for decision making that is reliable and transparent due to the growth of capital market in Indonesia. Investors may want to use the financial statements as a source of data they may rely on when making their decisions on the company's prospects and performance. Only one dimension of the quality of accounting information and the degree to which accounting information is important in capital markets is value relevance. However, the difference between financial statements' book value and what investors know as 'market value' of the assets could be attributable to the differences in the bases of measurement and information used to value assets.

The carrying amounts under historical-cost accounting may be impacted by a bigger degree than it is necessary for the current economic conditions. The attempts to increase the relevance and the comparability of the financial reporting are therefore related with convergence attempts of Indonesian accounting standard with International Financial Reporting Standard (IFRS) and

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the application of fair value measurement (if they are applied). Barth et al. (2001) emphasize the importance of value-relevance approach in the conventional setting of accounting and Barth et al. (2007) provide evidence on the relationship between international standards of accounting and accounting quality. Other factors also affect the usefulness of fair value information, such as the availability of the inputs to the fair value valuation (Song et al., 2010).

In various countries and in other situations the impact of convergence with IFRS is varying. The findings of Chebaane and Othman (2014) suggest that in adopting IFRS country there is a positive relationship between value relevance of earnings and book value of the companies, and Elbakry et al. (2017) report the value relevance of Accounting information in Germany and United Kingdom. The value relevance and risk relevance of the accounting information of banking companies have been declining in Indonesia as observed in the study by Lestari and Takada (2015), Juniarti et al. (2018), Cahyonowati and Ratmono (2013) and Suprihatin and Tresnaningsih (2013). Because of the mixed results, a need to assess the results of the IFRS in a national institutional and market context exists.

The convergence between Indonesian Financial Accounting Standards (SAK) and IFRS has been carried out through the process of convergence in phase by phase which, one of them is applicable for Indonesia. The IFRS 13 Fair Value Measurement (International Accounting Standards Board [IASB], 2011) regulates fair value measurement process internationally, while the Pengukuran Nilai Wajar (Ikatan Akuntan Indonesia [INAIK], 2024) regulates fair value measurement process domestically. Use of these standards is not a matter of choice of the application of the valuation, but a measurement framework and as needed and authorized by the standards, fair value is applied. The various phases of converge indicate a trend in relation to linkages between accounting and market values.

Conceptualization of association between accounting variables (earnings and book value) and share price is a common approach used in the value-relevance studies in literature. But this study is a comparative study of the distribution of book value per share (BVPS) and market value per share (MVPS) at two points in time in a period of IFRS convergence. The appropriateness of the industrial sector was picked due to the reason that the informativeness of book value can be different in various sectors (Chebaane & Othman, 2014). To compare the BVPS to MVPS for companies within the industrial sector that are listed in the IDX in transition period and full-adoption period, the study was carried out.

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LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The shareholder-Manager relationship is the contractual relationship the theory of which is called Agency theory, but propounded by Jensen and Meckling (1976). The separation can lead to problems with asymmetric information and possible conflicts of interest since the executives are more likely to have information about the firm's future and activities than are external shareholders. By credible financial reporting, this information asymmetry can be reduced, if not eliminated.

The importance of transparency and relevance in the accountancy reporting is explained by the rationales in this study, the Agency theory. Reporting and measurement in accordance with IFRS may lead to better information for external users when applied in line with the relevant parts of the IFRS. The findings of the study carried out in Indonesia also show that there is a relationship between financial statements and financial statements quality with disclosure of fair value and investor decisions and that disclosure of fair value is related to information asymmetry and investor decisions (Sari et al., 2015). However, this does not rule out the possibility that informative reporting does not necessarily mean that book value and market value will be the same since market values reflect other expectations and information.

IFRS Convergence, Fair Value, and Value Relevance

The motivation for convergence to IFRS is to enhance financial reporting in both areas: comparability and relevance. Such objectives can be met by fair value measurement - the valuation of the fair value of assets and liabilities that is required or allowed. The basis and guideline for measuring the fair value are IFRS 13 which is the international basis for measuring fair value (IASB, 2011) and PSAK 113 which is the basis for measuring fair value in Indonesia (Ikatan Akuntan Indonesia, 2024).

However, the usefulness of fair value information in various value-relevance settings hinges on what is being valued and the input data used to measure fair value. Overall, there are mixed attitudes in the IFRS literature. Mechelli and Cimini (2021); Alsarayreh et al. (2022) and Imhanzenobe (2022) focus on the relevance of the corporate governance and protection of investors, respectively, corporate governance and the relevance of the disclosures of financial instruments and the difference of the consequences of the adoption of IFRS in institutional environments. Simply, don't assume convergence to IFRS means that the results are the same from firm to firm, or industry or market to industry.

Book Value and Market Value

Net asset value of the shareholders based on the accounting policies adopted is known as Book Value. Book value is one of the valuable accounting variables that was recognised by Ohlson (1995) in determining equity value. Book Value per Share (BVPS) which was used for this study was calculated as total shareholders equity/total shares outstanding. In addition, in the following study, Krismiaji and Kusumadewi (2020) talk about Value relevance study in the Indonesia Stock Exchange (IDX) Earning and Book Value of the Listed Companies.

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The market value is a representation of the investors' assessment in the capital market. Future Cash flows along with risk are significant components of equity valuation as per Damodaran (2012). In this paper we took year-end closing prices as the proxy for market value per share (MVPS). The market prices can vary from BVPs because they reflect price expectations, reflecting expected growth, future profitability, risk and other factors not fully captured by accounting equity.

Hypothesis Development

There was an ongoing transition period, and it had an impact on the standards of accounting and how reports were created. Previous studies on the relationship between the convergence IFRS with the value added of accounting information are contradictory (Lestari & Takada, 2015; Anggraita et al., 2020; Chebaane & Othman, 2014; Elbakry et al., 2017). Because of the different information and measurement bases for book value and market value, the following hypothesis was developed:

H1: A significant difference exists between BVPS and MVPS among Indonesian industrial-sector firms during the IFRS transition period.

In this process of full adoption, use of IFRS converged standard in financial reporting in Indonesia is increased. However, a good accounting information does not always mean that the market value of the shares is the same as the book value as it is a value set by the market and by investors' expectations (Damodaran, 2012; Mechelli & Cimini, 2021). The following second hypothesis was developed:

H2: A significant difference exists between BVPS and MVPS among Indonesian industrial-sector firms during the full-adoption period of IFRS-converged reporting.

METHODS

Research Approach and Sample

A quantitative comparative approach has been used which analyzed the numerical data and compared the difference in the accounting based and the market based valuation results, but it didn't try to estimate the causal effect in a convergence of SFAs standards and IFRS Standards. The sampling principle of the quantitative survey and comparative analysis as described by Pujiono et al. (2023) was used in the research design. Research sample was companies in the industrial sector that were listed in the Indonesia Stock Exchange. The sampling method used in this study was purposive method and data availability method to obtain BVPS and the last year closing share prices. As a result, it was decided to take the following 52 Companies as a sample (Table 1).

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: Authors' compilation based on sample screening.

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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.

Data Analysis

The collected data was then analyzed in the software IBM SPSS (Statistics). Means, medians, standard deviations, minimum and maximum were used as descriptive statistics. The normality of the distribution was checked using Kolmogorov–Smirnov test and the homogeneity of variance was checked using Levene's test. Comparisons reported were made using the Mann Whitney U test as the distributions were not normally distributed. The statistical procedure used in performing the significance test was taken from the general procedure of SPSS statistical analysis by Ghozali (2021).

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive results revealed variation in the difference of central tendency and dispersion values of BVPS and MVPS in time lines investigated. The mean BVPS were higher than mean MVPS during transition period. The mean MVPS was marginally higher than the mean of BVPS for full adoption period. Both measures' maximum values and standard deviation of the measures showed dispersion was quite high.

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: IBM SPSS Statistics output; authors' compilation.

Normality and Homogeneity Tests

The Kolmogorov–Smirnov test was used for the BVPS and MVPS, and showed that they were not normally distributed for both sample groups, transition and full-adoption and overall ($p < 0.001$). The histograms and normal Q–Q plot verified the above results. Levene's test was used to further obtain information about homogeneity of variance. Normality of the data values was not found, and the hypothesis tests indicated below was performed using the Mann–Whitney U procedure.

Table 4. Summary of Normality and Homogeneity Results

Period	Normality result	Levene p-value	Interpretation

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Transition	< 0.001	0.053	Variance homogeneous at 5%, distributions non-normal
Full adoption	< 0.001	< 0.001	Variance not homogeneous, distributions non-normal
Overall	< 0.001	< 0.001	Variance not homogeneous, distributions non-normal

Source: IBM SPSS Statistics output; authors' compilation.

Hypothesis Testing

Different results were obtained for the two periods for the Mann–Whitney U tests. In transition the obtained p value was<0.05 which meant that the BVPS and the MVPS distributions were significantly different, thus supporting H1. The p value given in the sectioner was p=0.979 which is not strong enough to accept H2. For the overall sample no statistically significant difference was found (p = 0.161). Together with the results of the tests reported here do not confirm that they are indicative of causal effect due to the adoption of IFRS.

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: IBM SPSS Statistics output; authors' compilation.

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Discussion

The results of the transition period informed that, at the point of convergence on IFRS that was observed, there was indeed a discrepancy between the accounting based value and the market based value and that this discrepancy was significant. This is in line with pieces of literature that identify impacts of the adoption of the IFRS in an accounting and institutional context (Chebaane & Othman, 2014; Elbakry et al., 2017; Imhanzenobe, 2022).

A non-statistically significant difference in full-adoption period means that the reported Mann–Whitney U test did not find that there was a distributional difference between BVPS and MVPS in full-adoption period. The difference between the mean values was also less than during the transition stage in normatively. This is in conjunction with the results of studies conducted by Barth et al (2007), Lestari and Takada (2015), and Juniarti et al (2018) which state that with the existing reporting system that has been matured, the relevance of the disclosure provided in the Financial statements can be improved. However, when the test is not significant, it doesn't necessarily mean that the convergence of IFRS caused the pattern, rather it suggests that the convergence of IFRS may have caused the pattern, if there is a convergence. Market prices also reflect the cash flows, the company risks, and the company prospects (Damodaran, 2012).

The notion of financial-reporting transparency can also be explained in the light of the agency theory, which helps to further our understanding of the investors' interest in transparency. Although, the information asymmetry would lessen if the information provided is more relevant and comparable due to the implementation of IFRS converged reporting and fair value measurement, the gap between accounting measurement and market expectations (Jensen & Meckling, 1976) still exists. The results of previous studies have been varied, and factors such as disclosure of financial information and governance, investor protection and institutional setting also proved to affect the usefulness of such information (Mechelli & Cimini, 2021; Alsarayreh et al., 2022; Sari et al., 2015).

CONCLUSION

The companies in the industrial sectors of the Indonesian Stock Exchange (IDX) which used in the comparison in this research were the book value per share (BVPS) and the market value per share (MVPS) for varied convergence level on IFRS. Through the Mann–Whitney U test, it was conducted that there is statistically significant difference between BVPS and MVPS in transition period while in full-adoption there is no statistically significant difference between BVPS and MVPS. The Kolmogorov–Smirnov tests and graphical evaluations of the distributions showed that they did not follow a normal distribution, and justified the inclusion of the nonparametric tests.

The results add to the debate of the value relevance of accounting information by comparing directly accounting-based and market-based valuation measures. The study design, however, does not show causation from convergence to IFRS as all the markets react to risk, firm-specific factors, economic conditions as well as investor expectations. Future studies might focus on other industries, the difference in BVPS–MVPS in different periods and include more explanatory variables. Additionally, paired-sample methods should be included in future studies when examining the observation structure as the BVPS and MVPS are from the same companies.

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