CHAPTER 1

INTRODUCTION

1.1 Background

The development of advanced technology makes it easier for anyone who needs domestic and foreign information. The need for advance technology is inseparable from the need for investors to view various financial reports from all companies worldwide. With technological advancement, investors can not only invest in Indonesian companies but can also invest in other countries. When investors invest in other countries, these countries must have identical basis or rules. This identical rule makes the rules of one company with other companies have the same standards. When companies have the same standards, users of financial reports can easily understand the contents of financial reports. So far, there are still differences in the respective standards for making financial reporting between countries. The differences in standards for preparing financial reports between countries sometimes become an obstacle for users of financial statements in equating each company's financial statement in different countries.

Financial statements are the "face" of a company. The company is responsible for the business it manages through financial reports. Financial statement users can assess the company's health through financial reports. The constantly changing business environment can affect accounting policies as a provider of information for economic decision-makers due to economic globalization. The economic globalization condition causes differences in accounting standards in various countries. Indonesia is a country that has its accounting standards. The accounting principles or standards generally accepted in Indonesia are Statements of Financial Accounting Standards (PSAK). PSAK is prepared and issued by the Indonesian Institute of Accountants (IAI). Along with business developments on a national and international scale, IAI has launched the International Financial Reporting Standards convergence program. The Indonesian Accounting Association requires the adoption of IFRS on or after January 1, 2012. International Financial Reporting Standards (IFRS) are accounting standards issued by the International Accounting Standards Board (IASB). More than 150 countries, including countries in the European Union, Africa, Asia, Latin America, and Australia, have used IFRS. At least of the 85 countries that have required their financial reports to use IFRS for all domestic companies or companies listed on the capital market, IFRS has become a generally accepted international accounting standard.

The phenomenon that occurs in Indonesia is the application of fair value measurement. Statement of Financial Accounting Standards (PSAK) 68: Fair Value Measurement, which fully adopts the concept of IFRS 13: Fair Value Measurement effective January 1, 2015 (IAI Global News, 2013). Applying fair value based IFRS standards into PSAK must be supported by human resources who understand the new standards. Adopting these new standards requires companies to review their operating systems and accounting procedures. Fair value is more relevant and reliable than the historical cost method because fair value provides financial information according to market conditions during the reporting period. Research conducted by Kluever (2012) shows that fair value also has weaknesses, such as measurements at the fair value hierarchy, which are considered unreliable and can be manipulated. Likewise, Laux & Leuz (2009) state that using fair value will cause volatility in financial reports and fair value can cause transmission during a crisis. On the other hand, Aziz & Omoteso (2014) show that fair value is not a contributor to crises but can detect impending crises more quickly.

There are two standard-setting boards that is globally recognized: IASB and FASB. The FASB, or Financial Accounting Standards Board, is an organization in the United States responsible for issuing GAAP or generally accepted accounting principles. The FASB have more than fifty years of experience in issuing GAAP, such as SFAC (Statements of Financial Accounting Concepts), SFAS (Statements of Financial Accounting Standards), FASB Interpretations and FASB Technical Bulletins.

IFRS and SFAS have some similarities, but there are also several differences. One of the differences between IFRS and SFAS is that in IFRS, the measurement uses principle-based, the primary measurement uses fair value or fair value, which is determined based on market prices, while in SFAS, the measurement is rule-based, and the primary measurement is on acquisition value or cost method (historical cost). These differences underlie the awareness of the need for a single standard in recording high-quality global financial reports and are a reference that the IASB and FASB can use. With the convergence between IFRS and SFAS, there should be similarities in using standards through convergence or combining the two standards.

Fair value measurement is an issue that has experienced a very long and crucial debate. The Accounting Standards Board in Indonesia stated they would converge on IFRS as of 1 January 2012. In line with IFRS, several accounting standards in Indonesia also regulate mandatory and voluntary fair value. However, Cairns et al (2011) state that the choice of fair value measurement may impact comparability. Otherwise, Khomsatun (2016) state that accounting policies that allow for a choice of measurements between the cost and fair value methods; there are no changes in comparability before implementation, except for fixed assets. Farahmita & Siregar (2014) found the tendency of tax avoidance to be the cause of the company still not measuring fair value. These reasons are the basis for investigate the relevance analysis of applying PSAK - IFRS convergence in Indonesia reviewed based on Fair Value Accounting. Cairns et al (2011) examine the impact of fair value measurement rules on the comparability of financial statements in Australia and the UK. Cairns et al's research can be continued because Cairns et al's investigates companies in developed countries that impact market information disclosure. In addition, the IFRS adoption process in the UK and Australia differs from Indonesia, which adopts IFRS in stages. As a result, Cairns' findings cannot be examined in Indonesia.

Some previous studies Febriati (2013), Larasati & Supatmi (2014), and Pulumbara et al (2014) state that the process of implementing PSAK 50, 55, and 60. However, the studies were only focused on the impairment of financial instruments so that the extent of adaptation to PSAK 50, 55, and 60 which has converged with IFRS have not been disclosed. Therefore, we will investigate the implementation of fair value by companies because the principles are considered more relevant to replace historical cost. Aldeen Al-Khadash & Khasawneh (2014), Mei et al (2014), and Ahmad & Aladwan (2015) found that there is a positive relationship between the choice of fair value and cost method due company value, it means that the fair value of investment property has value relevance. However, studies by Jabar & Mohamed (2015) and Alhusaini & Elshamy (2016) show that the choice of fair value has no effect on stock prices, so there is no value relevance in it, and the choice of the fair value of investment property has no value relevance in decision making. Then, Angelo & Nuryani (2021) find that company size and leverage influence the choice of the fair value method. These diverse findings are one of the reasons why this research is still needed. Menicucci & Paolucci (2016) argues that fair value accounting will provide more timely and transparent information to investors for assessing entities' financial position and performance when referring to current market values. The Menicucci and Paolucci's opinion were then corroborated by Fajriana & Aviyanti (2019), state that fair value accounting has the main supporting factor: market conditions. If market conditions are active, the application of fair value accounting can be maximized because an active market situation can provide relevant and reliable information.

The descriptions and the diversity of results from previous studies motivated us to do the further research because there are still pros and cons of using the IFRS converged PSAK regarding accounting fair value measurements. Then, we chose to conduct a study on non-financial companies listed on the IDX from 2013 to 2021. Implementing fair value measurement is expected to assist researchers in providing policy-related information in the form of solutions to mitigate financial market turmoil due to the global economic slowdown.

Several previous studies were carried out on the application of IFRS convergence fair value measurement Febriati (2013), Aldeen Al-Khadash & Khasawneh (2014), Larasati & Supatmi (2014), Mei et al (2014), Pulumbara et al (2014), Ahmad & Aladwan (2015), and Khomsatun (2016). However, this study discusses a different PSAK. The PSAK discussed in this study is PSAK 16, PSAK 15, PSAK 48, PSAK 58, and PSAK 50.[1] While the previous studies test PSAK 13, PSAK 16, PSAK 19, and PSAK 55. The PSAK studied in this study needs to be expanded into objects to see not only one or two PSAKs, because PSAK 68 regulates several PSAKs contained in financial reports. Then, if the previous research only discussed one business sector, we expand the research by discussing the non-financial industry. Then, in contrast to previous research, which only examined three to five years financial reporting periods, this study looks at the relevance of using the fair value prior to implementation, i.e., 2013 to 2021, to see whether the application of PSAK 68 still has value relevance today.

PSAK 16 which regulates Property, Plant and Equipment. PSAK 16 paragraph 43 regarding changes in accounting policies from the cost model to the revaluation model, which have no provisions in IAS 16. Then PSAK 15 is applied to the fair value of associate investments. Investments in associates are accounted for using the equity method unless classified as held for sale following PSAK 58, whichever is the lower of the carrying amount or fair value fewer costs of sale. In PSAK 15, adjustments are made for the depreciation of assets based on fair value,

[1] PSAK 16: Fixed Assets, PSAK 15: Investments in Associates and Joint Ventures, PSAK 48: Asset Impairment, PSAK 58: Non-Current Assets Held for Sale and Discontinued Operations, and PSAK 50: Presentation of Financial Instrument

and associates recognize a decrease in goodwill. Then, revised PSAK 48 in 2009 regulates the impairment of assets following IAS 36 concerning impairment. PSAK 48 also applies to assets recorded at the revalued amount (i.e., fair value) following other Statements, such as the revaluation model in PSAK 16. Then, PSAK 58 was approved by the Financial Accounting Standards Board on December 15, 2009. PSAK 58 revises PSAK 58 concerning Discontinuing Operations, issued on May 6, 2003. Then finally, regarding PSAK 50, the presentation currently in effect adopts almost all of the provisions in IAS 32 Financial Instruments: Presentation as of January 1, 2014. PSAK 50 is intended to establish the principles that will determine whether a financial instrument is a liability or equity and establishes principles for offsetting financial assets with financial liabilities. PSAK 50 also regulates the classification of interest, dividends, losses, and gains related to financial instruments issued and states conditions requiring entities to write off financial assets and liabilities. The principles stated in PSAK 50 complement the principles for recognizing and measuring financial assets and financial liabilities in PSAK 55 Financial Instruments: Recognition and Measurement.

Based on the explanations regarding some of these PSAKs along with previously disclosed studies, we are interested in conducting further research related to value relevance for PSAK 16, PSAK 15, PSAK 48, PSAK 58, and PSAK 50 to provide the evidence whether the company applies fair value measurement or the cost method at the time of IFRS convergence.

1.2 Problem Formulation

Based on the background above, the formulation of the problems posed in this study are:

1. Does the company report before applying PSAK 68 for Fixed Assets and afterward comparable?
2. Does the company report before applying PSAK 68 for Investments in Associated Entities and Joint Ventures afterward comparable?
3. Does the company report before applying PSAK 68 for Assets Impairment afterward comparable?
4. Does the company report before applying PSAK 68 for Non-Current Assets held for Sale and Discontinued Operations afterward comparable?
5. Does the company report before applying PSAK 68 for Presentation of Financial Instruments afterward comparable?

1.3 Research Objectives

Based on the background above, the purpose of this study is intended to:

1. To determine the comparability of the company's financial statements in applying fair value measurement for Fixed Assets in Indonesia.
2. To determine the comparability of the company's financial statements in applying fair value measurement for Investments in Associated Entities and Joint Ventures in Indonesia.
3. To determine the comparability of the company's financial statements in applying fair value measurement for Asset Impairment in Indonesia.

4. To determine the comparability of the company's financial statements in applying fair value measurement for Non-Current Assets held for Sale and Discontinued Operations in Indonesia.
5. To determine the comparability of a company's financial statements in applying fair value measurement to Presentation of Financial Instruments in Indonesia.

1.4 Research Benefits

Theoretical Benefits

The findings in this study are expected to provide an additional reference for preparers of financial reports. A financial report must be of comparability value in preparing financial reports so that these financial statements can be compared according to SFAC 8.

Practical Benefits

The findings from this study are expected to provide a valuable contribution to investors and companies in helping to analyze market changes related to the situation and conditions of the domestic economy. The changing conditions of the economy are both domestic and global and are expected to be able to adjust to market changes. Because the fair value measurement is based on market prices with reference to market information.

Writing system

This study uses writing systematic consisting of five chapters, each of which consists of:

CHAPTER I **INTRODUCTION**

Chapter one is the opening chapter that describes the background, problem formulation, objectives, benefits research, and writing systematic.

CHAPTER II **LITERATURE REVIEW**

Chapter two describes some fundamental theories and concept related to this study.

CHAPTER III **RESEARCH METHOD**

Chapter three discusses the object/subject of research, methods of data collection, types and sources of data, and methods of data analysis.

CHAPTER IV **RESULTS & DISCUSSION**

Chapter four describes the description of the object of research, quantitative analysis, and interpretation of the results and explains the arguments following the research results.

CHAPTER V **CLOSING**

Chapter five contains the conclusions of the research as well research limitations. The solution to limitations, the research includes suggestions for future researchers.