“Measurement under IAS 40: Fair value model? Evidence from Indonesia”

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MEASUREMENT UNDER IAS 40: FAIR VALUE MODEL? EVIDENCE FROM INDONESIA

Abstract

This study examines the effect of contractual, asset pricing, and opportunistic motivations on choosing a fair value or cost model for investment properties, as well as how institutional ownership moderates the influence of these three motivations. This study was conducted on 100 companies with investment property accounts in ten sectors listed on the Indonesia Stock Exchange from 2018 to 2022, including 500 firm-year data observations. The study used logistic regression and moderated regression analysis to test the hypotheses. The results indicate that the three motivations explain the choice between fair value and cost models. However, institutional ownership plays an important moderating role. Contractual motivation and firm size as a proxy are positively related to fair value choice, contradicting political costs, as fair value can enhance asset value, potentially increasing opportunities for third-party financing. Asset pricing incentives and the ratio of market to book value as proxies for information asymmetries do not affect the choice because Indonesia is a developing country where investors tend to exhibit herding bias, meaning their information sources rely on issues rather than financial reports. As for opportunistic motivation, the gain arising from changes in the fair value of investment property for the bonus plan proxy is positively related to the fair value choice. In addition, institutional ownership can strengthen the influence of contractual and opportunistic motivations and weaken the influence of asset pricing motivation on selecting a fair value model.

Keywords contract, asset pricing, opportunist, institutional ownership, investment property

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INTRODUCTION

Research on appropriate accounting methods for investment properties in Indonesia is considerably limited compared to European countries (Kadri et al., 2020; Mita & Siregar, 2019; Wahyuni et al., 2019). However, the International Accounting Standard is applied by all ASEAN countries during the harmonization and convergence of the International Financial Reporting Standard (IFRS) (Sasongko & Marhamah, 2014). Investment properties were regulated by Indonesian Financial Accounting Standards (IFAS) 13, adopted from International Accounting Standards (IAS) 40, and among the initial accounts affected by the IFRS convergence in 2008 (Mita & Siregar, 2019).

The effect of this convergence was the revision of IFAS 13 in 2015, giving management the option to carry out specific measurements using either cost or fair value methods (Kahiking et al., 2017; Mita & Siregar, 2019; Sasongko & Marhamah, 2014). Meanwhile, the application of fair value methods increases profits due to the recognition of revaluation gains or losses not associated with other comprehensive income (Al-Khadash & Khasawneh, 2014), and no depreciation is required by

the company (Wahyuni et al., 2019). Despite these advantages, Indonesian companies tend to prefer the cost method (Wahyuni et al., 2019), making the motivation behind selecting a fair value method for investment properties an interesting research topic.

The decision to select a fair value measurement method is affected by multiple factors, including contractual, asset pricing, and opportunistic management motivation (Olante & Lassini, 2022). This study differs from previous research, for example, conducted by Wahyuni et al. (2019), because it does not consider motivation in the decision to choose the fair value model, and Olante and Lassini (2022), which was conducted in many countries with different accounting standard provisions. This study was conducted in Indonesia, a developing country with economic conditions that are more dependent on banks than the capital market, so that financial statement information is aimed at meeting banking expectations. Additionally, institutional ownership is expected to offer better company-monitoring functions than individuals (Muller et al., 2008; Wahyuni et al., 2019). This monitoring function also includes the decision to use the fair value method to reveal a company's true value.

1. LITERATURE REVIEW

The motivation behind accounting policy selection is an interesting issue, as there is no definitive explanation for why management selects specific methods. However, previous research described three main motivations in accounting policy selection: contracting, asset pricing, and externalities (Fields et al., 2001). This study was conducted based on three fundamental theories: positive accounting theory, signaling, and agency theories. Specifically, the initial analysis focused on positive accounting theory, comprising two main hypotheses: bonus plan and political cost (Watts & Zimmerman, 1990). Previous research used these three hypotheses as the basis for selecting the determinants of investment property fair value (Al-Khadash & Khasawneh, 2014; Chen et al., 2020; Kadri et al., 2020; Kholilah et al., 2024; Mita & Siregar, 2019; Mulyanti et al., 2020; Prabandari & Kholilah, 2024; Setijaningsih et al., 2021; Shen, 2022; Wahyuni et al., 2019). For example, according to the political hypothesis, management tends to select accounting methods that decrease profit to maintain the tax (Fomina et al., 2018; Mita & Siregar, 2019).

The signaling theory explores the signals a company sends to financial statement users to describe future growth prospects (Spence, 1973). This theory provides insights into management's motives in sharing financial statement information with users (Yuliana & Kholilah, 2019), a crucial consideration due to the prevalent information asymmetry during such interactions. Fair value in financial statements aims to show the actual value of the company in reducing information asymmetry (Pratiwi & Tahar, 2017). Changes in the value of investment property can reduce investor information risk, as cash inflows indicate tenant interest and affect the company's growth prospects (Sangchan et al., 2020). Consequently, transparent and open disclosure of financial statements becomes essential for investors to assess the company effectively. Non-accounting information can contribute to understanding aspects related to company survival (Kusuma & Rohman, 2014).

The last theory is an agency, stating the relationship between agents managing certain activities and owners who are investors in the company (Jensen & Meckling, 1976). Despite the ownership, investors typically have less information than the management. The gap in information acquisition can lead to different economic decisions. Management consistently strives to provide credible information, ensuring owners can access the rightful information. The potential for information differences will always exist along with the diverse interests of both parties. Therefore, there is a need to use institutional ownership to monitor management activities to ensure these align with those of the owners (Alves, 2019; Wahyuni et al., 2019).

Fair value use can increase company profits and assets, enhancing the potential for obtaining external funding (Mita & Siregar, 2019). This study contradicts the political cost hypothesis that larger companies tend to select accounting meth-

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ods leading to lower assets and profits, aiming to avoid excessive government attention (Azmi & Ali, 2019; Darmawan et al., 2022; Wahyuni et al., 2019). Theoretically, the political cost hypothesis proves that the company will elect the cost method due to lower asset values and profits, reducing the potential for increased value. This observation corresponds with several prior studies that have identified a consistent negative relation of company size on selecting a fair value method for investment property. In addition, management tends to use the cost method as a means of profit minimization (Olante & Lassini, 2022). Relevant actions were taken to reduce potential political costs arising from heightened government attention to company profits and assets (Mita & Siregar, 2019; Olante & Lassini, 2022). Political costs were observed to rise with an increase in company size, establishing a correlation where larger companies experience higher political costs, reducing the probability of selecting fair value.

Signaling theory states that the choice of accounting policy functions as a sign, delivering the commitment of the company towards adopting a method that fosters investor confidence. Specifically, selecting the fair value method shows the efforts of the management to reassure investors about the careful selection of accounting methods aimed at increasing company value (Hsu & Wu, 2019). Information asymmetry positively affected the decision to select a fair value method for investment property (Mita & Siregar, 2019; Quagli & Avallone, 2010). Companies with higher levels of information asymmetry will probably select the fair value method to transparently portray the actual value (Bandyopadhyay et al., 2017; Yennisa et al., 2020).

The freedom of management in selecting investment property measurements was misused to report unrealistic and unreasonable fair value estimates, particularly in companies with specific profit targets (Chen et al., 2020). The selection of accounting methods to increase profits correlates with the bonus plan hypothesis, which states the tendency for these methods to enhance company profits, consequently becoming a bonus for management. This statement showed the opportunistic motivation of management in selecting the fair value method, reflecting a tendency toward income-maximizing behavior through accounting policy selection (Mita & Siregar, 2019; Quagli & Avallone, 2010). The potential for higher profits through fair value can drive the increased adoption of this method for investment property (Chen et al., 2020). The higher the fair value difference gain resulting from investment property revaluation, the stronger the management motivation to use the method (Muller et al., 2008). The opportunistic motivation of the management can drive the decision to use the fair value method.

Agency theory states that the information asymmetry between management and owners is essential, with management typically possessing more information (Jensen & Meckling, 1976). This informational gap can create opportunities for management to take actions not in line with the owner's interests. It is addressed using a corporate governance mechanism (Gracia & Siregar, 2021), including the participation of internal parties in determining the composition of the board or through external assistance in the form of ownership concentration and independent audits (Wijaya & Firmansyah, 2021). This statement aligns with previous research, which focused on the three benefits of corporate governance mechanisms: coinciding differences in management and investor interests, increasing the reliability of financial information, and enhancing the integrity of the financial reporting process (Watts & Zimmerman, 1990). Implementing sound corporate governance, including the use of a fair value method compliant with IFRS, enhances financial statements' credibility, transparency, and usefulness (Pascayanti et al., 2017). Furthermore, institutional ownership has an incredible opportunity to exert a more significant effect on management decisions regarding the selection of accounting methods than individual investors due to the monitoring mechanism (Wahyuni et al., 2019).

This study examines contractual, opportunistic, and asset pricing motivations in measuring investment property. In addition, institutional ownership, which is the implementation of good corporate governance (GCG), is also used as a moderating variable to determine whether GCG can strengthen or weaken the three motivations for choosing the fair value of investment property.

The hypotheses are as follows:

H1: Firms with high company size are more likely to choose the fair value model.

H2: Firms with high asymmetry information are more likely to choose the fair value model.

H3: Firms with higher opportunistic motivation are more likely to choose the fair value model.

H4: Institutional ownership moderates the relationship between company size, asymmetry information, and opportunistic motivation to choose the fair value model.

2. METHODS

This study used the quantitative method to examine the relationship of contractual, asset pricing, and opportunistic motivation in selecting a fair value method for investment property. The second objective is to test the moderating effect of institutional ownership on the motivation to choose the fair value model. This method was used by previous research focused on identifying the determinants of choosing the fair value method (Al-Khadash & Khasawneh, 2014; Mita & Siregar, 2019; Olante & Lassini, 2022; Wahyuni et al., 2019).

The population of all companies listed on the Indonesia Stock Exchange, totaling 723 companies (12 sectors), includes basic materials, consumer cyclical, consumer non-cyclical, energy, financial, healthcare, industrial, infrastructure, properties and real estate, technology, transportation and logistics, and listed investment products (Kholilah et al., 2024). Purposive sampling was then applied, considering the conditions: 1) the company must be registered and active, 2) have complete financial reports from 2018 to 2022, including the possession of investment property, and 3) have complete data related to the variables used. The results showed that 623 companies failed to meet the specific criteria. Therefore, the final sample included 100 companies with a five-year research period from 2018 to 2022, generating a dataset of 500 observations. The data are taken for 2018–2022 because the last IFAS 13 change occurred in 2017 and was effectively used in 2018 (Prabandari & Kholilah, 2024). In addition, in 2022, there is another change, so there may be differences in accounting treatment on investment property accounts above 2022.

The sample were ten sectors, basic materials (17 companies), consumer cyclical (6 companies), consumer non-cyclical (20 companies), energy (3 companies), finance (10 companies), industry (7 companies), infrastructure (7 companies), property & real estate (26 companies), technology (1 company), and transportation & logistics (3 companies). Data were obtained from Refinitiv Eikon for the financial data and stock price and financial statements published on the Indonesia Stock Exchange, because information about the disclosure of the fair value model only exists in the notes to the financial statements[1].

In the present study, four variables were adopted: dependent, independent, moderating, and control. The operational definitions of each variable are shown in Table 1.

Logistic regression analysis was used because the dependent variable was a dummy (Mita & Siregar, 2019) and categorized into two groups (Guellil & Benhabib, 2022; Sabbir, 2022). These groups are fair value (1) and cost model (0) (Alves, 2019; Mita & Siregar, 2019; Olante & Lassini, 2022; Wahyuni et al., 2019). Additionally, moderated regression analysis was used to examine the interaction effects. The analytical model presented in Models 1 and 2 was designed to capture and evaluate these dynamics.

Model 1

$$Ln\left(CHOICE/CHOICE_{i,t}-1\right)=\beta 0 + \beta 1 LNTAS_{i,t} + \beta 2 ASINFOR_{i,t} + \beta 3 MOTIV_{i,t} + \beta 4 ROA_{i,t} + \beta 5 GWTH_{i,t} + \varepsilon. \quad (1)$$

Model 2

$$Ln\left(CHOICE/CHOICE_{i,t}-1\right)=\beta 0 + \beta 1 LNTAS_{i,t} + \beta 2 ASINFOR_{i,t} + \beta 3 MOTIV_{i,t} + \beta 4 ROA_{i,t} + \beta 5 GWTH_{i,t} + \beta 6 OWN_{i,t} + \beta 7 LNTAS_{i,t} \cdot OWN_{i,t} + \beta 8 ASINFOR_{i,t} \cdot OWN_{i,t} + \beta 9 MOTIV_{i,t} \cdot OWN_{i,t} + \varepsilon. \quad (2)$$

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Table 1. Operationalization of variables

Source: Authors cited in the table.

Variable	Measurement	References
The Fair Value Accounting Method Selection – Dependent Variable		
The Fair Value Accounting Method Selection ($CHOICE_{i,t}$)	Selecting a fair value model (1) and a cost model (0).	(Mita & Siregar, 2019)
Contractual, Asset Pricing, and Opportunistic Motivation – Independent Variable		
Firm Size ($LNTAS_{i,t}$)	Corporate size as measured by the natural logarithm of the total assets *i* in year *t*	(Mita & Siregar, 2019)
Asymmetric Information ($ASINFOR_{i,t}$)	Market to book value of corporation *i* in year *t*	(Mita & Siregar, 2019)
Gains arising from changes in the fair value of investment property ($MOTIV_{i,t}$)	Opportunistic Motivation as measured by the natural logarithm of revaluation gain of corporation *i* in year *t*	(Mita & Siregar, 2019)
Institutional Ownership – Moderating Variable		
Institutional Ownership ($OWN_{i,t}$)	The Number of Institutional Owners of Corporate I for the period t	(Wahyuni et al., 2019)
Firm Characteristic – Control Variables		
Financial Performance ($ROA_{i,t}$)	The profitability ratio is calculated from the total revenue divided by the total assets of the corporation *i* in year *t*	(Wahyuni et al., 2019)
Growth Opportunities ($GWTH_{i,t}$)	The corporate sales growth ratio is calculated by sales in year *t* minus those in year *t*-1, and is divided by year *t*-1	(Wahyuni et al., 2019)

3. RESULTS

The results of the descriptive test provided a comprehensive understanding of the dataset characteristics. Examining the variable LNTAS, the data distribution showed an average and standard deviation of 29.21678 and 1.819, respectively, with minimum and maximum values of 24.041 and 33.800. The variable asymmetry information had an average and standard deviation of 19.569 and 86.784, respectively, with minimum and maximum values of 0 and 1,182.500. The MOTIV variable had an average and standard deviation of 13.989 and 12.3166, with minimum and maximum values of 0 and 32.113, respectively. The GROWTH variable had an average and standard deviation of 0.044 and 0.867, with minimum and maximum values of –5.076 and 11.933. Finally, the ROA variable had an average and standard deviation of 0.136 and 0.097, with minimum and maximum values of –0.299 and 0.428, respectively. Unlike the independent and control variables, the dependent variable in this study is a dummy variable; therefore, descriptive statistics are used to describe the percentage of companies that use the fair value model compared to those that use the cost model. The results show that 66 companies prefer the cost model to the fair value model.

The feasibility test for the regression model shows Chi-Square and significance values of 7.783 and 0.455. The significance value is more significant than 0.05, meaning that *H0* is accepted and the formed regression model is considered appropriate. The overall model fit test showed initial and final -2 Log Likelihood (-2LL) values of 628.368 and 551.683. This decrease in the -2 Log Likelihood (-2LL) value means that the regression model used in this study is consistent with the hypothesized data.

Table 2. Descriptive statistics

Variable	Mean	S.D	Min	Max	
Experimental Variables (Obs = 500)					
LNTAS	29.216	1.819	24.041	33.800	
ASINFOR	19.569	86.784	0.000	1182.500	
MOTIV	13.989	12.316	0.000	32.113	
Control Variables (Obs = 500)					
GWTH	0.044	0.867	–5.076	11.933	
ROA	0,136	0,097	–0,299	0,428	
Dependent Variable (Sample = 100)					
Investment Property Measurement	Cost Model (0)		66 companies	66%	100%
	Fair Value Model (1)		34 companies	34%	

The test results for Model 1 in Table 3 stated that LNTAS has a significance value of 0.000, less than 0.01, confirming that *H1* is accepted. The regression coefficient value for LNTAS is 0.282, signifying that this variable positively affected CHOICE. It implied that as company size increased, there was a higher tendency to select fair-value methods for investment properties. The test results showed that ASINFOR had a significance value of 0.301, exceeding the 0.05 threshold; therefore, *H2* was rejected. The test results showed that MOTIV has a significance value of 0.092, less than 0.10; therefore, *H3* is accepted. The regression coefficient value for MOTIV is 0.014, showing a positive relation with CHOICE.

The results of the moderation test for Model 2 in Table 3 showed that the moderating effect of OWN and LNTAS on CHOICE has a significance value and regression coefficient of 0.023 and 0.009, respectively, depicting a significance level of less than 0.05. This result implied that the hypothesis is accepted, and the positive coefficient depicted OWN strengthened the effect of LNTAS on CHOICE. The effect of the interaction between OWN and ASINFOR on CHOICE is characterized by a significance value and regression coefficient of 0.000 and –0.002, respectively, both less than the 0.01 threshold. The negative coefficient implies that OWN weakens the effect of ASINFOR on CHOICE. This result showed that the higher the information asymmetry, the lower the tendency for the company to select fair-value methods. The effect of the interaction between OWN and MOTIV on CHOICE has a significance value and regression coefficient of 0.000 and 0.002, respectively, with a significance level of less than 0.05, meaning this hypothesis is accepted. In addition, the positive coefficient means that OWN strengthens the effect of MOTIV on CHOICE.

The control variables in Table 3 show that GROWTH and ROA do not significantly affect CHOICE. This result contradicts previous research, depicting that sales growth and profitability affect selecting accounting methods (Alves, 2019; Wahyuni et al., 2019). It also depicts that profitability and sales growth are not the focal points for management in the decision-making process for selecting accounting methods.

The additional tests were adopted to ensure the accuracy of the results obtained. The additional test was conducted by replacing the measurement of the CHOICE variable with a dummy and only in property and real estate sector companies, where 1 and 0 represent high (DFV = 1) and low (DFV = 0) fair value differences above and below, respectively (Mita & Siregar, 2019). The substitution of the measurement for the dependent variable changed the model used in this study.

$$Ln\left(DFV_{i,t}/DFV_{i,t}-1\right)=\beta 0+\beta 1LNTAS_{i,t}+\beta 2ASINFOR_{i,t}+\beta 3MOTIV_{i,t}+\beta 4ROA_{i,t}+\beta 5\ GWTH_{i,t}+\varepsilon. \quad (3)$$

$$Ln\left(DFV_{i,t}/DFV_{i,t}-1\right)=\beta 0+\beta 1LNTAS_{i,t}+\beta 2ASINFOR_{i,t}+\beta 3MOTIV_{i,t}+\beta 4ROA_{i,t}+\beta 5GWTH_{i,t}+\beta 6OWN_{i,t}+\beta 7LNTAS_{i,t}\cdot OWN_{i,t}+\beta 8ASINFOR_{i,t}\cdot OWN_{i,t}+\beta 9MOTIV_{i,t}\cdot OWN_{i,t}+\varepsilon. \quad (4)$$

Table 3. Decision to choose the fair value method for investment property

Variables	Model 1		Model 2	
	B	p-value	B	p-value
Constant	–21.667		4.873	
LNTAS	0.282	0.000*	–0.297	0.221
ASINFOR	1.615	0.301	0.109	0.000*
MOTIV	0.014	0.092***	–0.100	0.002*
GROWTH	0.404	0.650	–0.098	0.663
ROA	0.032	0.970	–1.116	0.184
LNTAS*OWN			0.009	0.023*
ASINFOR*OWN			–0.002	0.000*
MOTIV*OWN			0.002	0.000*
Nagelkerke R^2	0.085		0.199	

Note: Significance at * 1%, ** 5%, and *** 10%.

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Table 4. Robustness test

Variables	Model 3		Model 4	
	B	p-value	B	p-value
Constant	–20.795		–104.224	
LNTAS	0.555	0.090***	–16.328	0.167
ASINFOR	–1.657	0.025**	–118.727	0.060***
MOTIV	0.180	0.618	16.150	0.064***
GROWTH	–0.261	0.883	353.308	0.117
ROA	–2.051	0.001*	–12.023	0.557
LNTAS*OWN			4.064	0.145
ASINFOR*OWN			28.375	0.066***
MOTIV*OWN			–3.735	0.061***
Nagelkerke R^2	0.680		0.769	

Note: Significance at * 1%, ** 5%, and *** 10%.

The additional test examined only companies operating in the property and real estate sector, totaling 26 samples. This sector-specific analysis is essential for two reasons: First, given that the primary industry focuses on properties, the recognized fair value difference significantly affects the performance evaluation (Mita & Siregar, 2019; Wahyuni et al., 2019). Second, the low transparency in the property sector (Chen et al., 2020; Dong & Sing, 2021) affects investor overreactions, resulting in high stock price volatility. This overreaction is due to the lack of transparency in the sector (Dong & Sing, 2021). Furthermore, the results of the second additional test are shown in Table 4.

The results in Table 4 are summarized as follows: The results of the first hypothesis testing showed that LNTAS had a p-value of 0.090, less than 0.1; hence, this result was consistent with the main model. The results of the second hypothesis testing showed ASINFOR had a p-value of 0.025, less than 0.05. Therefore, this result was inconsistent with that of the main model. The results of the third hypothesis testing showed that MOTIV had a p-value of 0.618, which was more significant than 0.05; therefore, this result was inconsistent with that of the main model. The positive coefficient value implies that OWN strengthened the effect of LEVR on CHOICE. The effect of the interaction between OWN and LNTAS on CHOICE had a p-value of 0.145, more significant than 0.1, indicating that OWN does not moderate the effect of LNTAS on CHOICE. The interaction between OWN and ASINFOR on CHOICHE had a p-value of 0.066, less than 0.1. The positive coefficient implied that OWN strengthened the effect of ASINFOR on CHOICE. Finally, the interaction between OWN and MOTIV on CHOICE had a p-value of 0.061, less than 0.05. In addition, the negative coefficient implied that OWN weakened the effect of MOTIV on CHOICE. This result was consistent with the main model.

4. DISCUSSION

Fair value can increase a company's net profit owing to the absence of depreciation and revaluation as an addition to the company's net profit. Fair value selection is intriguing because decision-making highly depends on management, making it challenging for external parties to determine the primary reasons precisely. The results contradicted the political cost hypothesis, which stated that larger companies preferred cost-based methods to avoid excessive government attention (Wahyuni et al., 2019). However, it is consistent with previous empirical research, which stated that a positive correlation existed between company size and the decision to select the fair value method (Alves, 2019; Angelo & Nuryani, 2021; Ngoc, 2020; Pratiwi & Tahar, 2017; Quagli & Avallone, 2010). Fair value can enhance asset value, potentially increasing opportunities for third-party financing (Alves, 2019). Therefore, the larger the company, the higher the tendency to select the fair value method over the cost-based method. Large companies have more resources and are more likely to undertake the revaluation process than companies with smaller assets.

These results contradict the signaling theory that higher information asymmetry would drive companies to select the cost-based method to reflect

actual value (Alves, 2019; Kadri et al., 2020; Mita & Siregar, 2019; Yennisa et al., 2020). However, the acquired results align with previous research stating that information asymmetry does not affect the decision to select the fair value method (Mulyanti et al., 2020; Pratiwi & Tahar, 2017; Setijaningsih et al., 2021). Previous research stated that this method enhanced asset value through the revaluation process, potentially leading investors to believe it served as a means for management to engage in earnings practices (Mulyanti et al., 2020; Setijaningsih et al., 2021).

These results are in accordance with previous research stating that opportunistic motivation affects the decision to select fair-value methods for investment properties (Quagli & Avallone, 2010; Taplin et al., 2014). Opportunistic motivation is manifested by selecting accounting methods that enhance performance through profit improvement (Muller et al., 2008). The higher the profit difference achieved using fair value, the more it would be selected, as this method increases company profits (Quagli & Avallone, 2010; Taplin et al., 2014). These results are consistent with the bonus plan hypothesis, where the company tends to select accounting methods to increase profits to meet bonus objectives (Watts & Zimmerman, 1990).

The result showed that institutional ownership played a supervisory role by influencing the choice of fair-value methods. Selecting fair value can enhance asset value, increasing the potential for external funding (Kadri et al., 2020). However, the funding of this study contradicts the political cost hypothesis that larger company tends to select cost-based methods to avoid tax obligations, particularly as revaluation becomes a taxable object (Setijaningsih et al., 2021). While fair value methods accurately reflect the company's true value, the additional costs incurred in the form of fees for independent appraisal services during the revaluation process are perceived as burdensome by institutional ownership. These costs reduce overall well-being, with benefits that investors do not accept directly (Mita & Siregar, 2019).

The results showed that institutional ownership can moderate the effect of opportunistic motivation on selecting a fair value method for investment properties. This statement is under the bonus plan hypothesis, which states that a company tends to select accounting methods capable of increasing profits for bonus purposes (Watts & Zimmerman, 1990). The potential of fair value methods to increase company profits is critical, as those from the revaluation of investment properties are recognized in the profit and loss report rather than other comprehensive income reports, like fixed assets (Kahiking et al., 2017). Furthermore, using this method for investment properties reduced the need to calculate depreciation expenses, contributing to increased company profits (Wahyuni et al., 2019). The results of this study contradicted the conventional view of institutional ownership as supervisors of management activities, overseeing the prevention of earnings practices through the use of the fair value method (Thesing & Velte, 2021).

This additional test showed that total assets and information asymmetry affect the choice of fair value measurement method for investment property. Additionally, institutional ownership can moderate the relationship between total assets, information asymmetry, and opportunistic motivations in selecting an accounting method. These results are consistent with the primary test, where approximately three of the five hypotheses used in this study were accepted. The differences in significant variables were attributed to the uniqueness and specific policies in the property and investment sector (Olante & Lassini, 2022). As stated in previous research, property and real estate companies often prefer using cost methods over fair value to avoid high taxes (Mita & Siregar, 2019).

CONCLUSION

This study empirically tests the influence of contractual motivation, asset pricing, and opportunism on choosing a fair value model. The second objective is to test the moderating effect of institutional ownership on the decision to choose a fair value or cost model. The results show that contractual and opportunistic motivations are positively related to selecting a fair value method for investment property;

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conversely, the smaller the company and the lower the opportunistic motivation, the more likely it is to use a cost model. The larger the total assets and the gain differential from the investment property revaluation, the greater the tendency of management to choose the fair value method, and vice versa. Large companies have considerable assets, ensuring that the value in financial statements is relevant to the current conditions. Profit is the most straightforward financial performance to calculate and is often used to determine company bonuses. Fair value can increase company profits; therefore, companies that base bonuses on profits will adopt accounting models to increase profits. This result did not address asset pricing motivation. The fair value method is not a means to reflect a company's actual value. It also showed that using fair value required higher costs owing to the need for independent valuation services, which might not be commensurate with the benefits obtained. Furthermore, this study empirically establishes the moderating effect of institutional ownership on the relationship between contractual, asset pricing, and opportunistic motivations in selecting a fair value method for investment property. The results showed that corporate governance mechanisms facilitated by institutional ownership oversight reduced various agency problems. This study was conducted only in Indonesia, where tax regulations specifically regulate the revaluation of fixed assets, so accounting policies may be directed to meet these regulations, which is a limitation of this study. Future research can conduct cross-country testing or compare countries with no tax regulations on revaluation so that regulations do not limit the decision to choose the fair value or cost model.

AUTHOR CONTRIBUTIONS

Conceptualization: Kholilah Kholilah, Sari Atmini.
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