THE EFFECT OF CONSERVATISM ACCOUNTING ON FAIR VALUE OF COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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Abstract: This study aims to test and prove empirically the effect of conservatism accounting on the fair value of companies in Indonesia. The population in this study were companies listed on the Stock Exchange during the period of 2014-2016. Through the process of selecting samples using certain criteria, 1095 observations were obtained. The results of the study confirmed the existence of a negative relationship between conservatism accounting concepts with fair value. The results showed that the higher the level of conservatism, will reduce the fair value of the company. Conversely, the lower the level of conservatism, will increase the fair value of the company.

Key Words: conservatism accounting, fair value of companies, value of companies and companies in Indonesia.

1. INTRODUCTION:

Accounting for conservatism or what is known as the precautionary principle is one of the most important and influential limitations on accounting information. With reliable accounting information, the presentation of financial statements will be high quality. Conservatism has become an accounting principle that has been widely adopted by accountants since the 15th century and has become increasingly popular in the past three decades. The FASB Statement of Concept No. 2 defined conservatism as a prudent reaction to deal with uncertainty. This is done to ensure that the uncertainties and risks inherent in the business situation have been adequately considered (Pujiati, 2013). By considering the situation, the company can minimize the risks that may be faced.

According to Basu (1997) conservatism is an accounting practice by reducing profits (and decreasing net asset value) when faced with the practice of bad news, but does not increase profits (and increase net asset value) when responding to good news. In principle, conservatism accounting is implemented in conditions if there is something that has not been realized, then the event cannot be recognized. However, acknowledging the decline in assets even though the event has not been realized. Basu added that there was conditional conservatism or ex post conservatism. Conservatism in this form is conservatism based on market conditions related to earnings and depends on news (news dependent). This form of conservatism is a reaction or response from companies that carry out different verification as the absorption of information contained in the business environment. Things related to conservatism can also affect earnings of the company. Values are related to the information that can be caused by gain (profit) and losses (deprivation) economically.

In PSAK, several choices of recording methods that can lead to financial reporting are conservative. According to PSAK no. 16 concerning fixed assets and other assets that regulate the estimation or estimated useful life of a fixed asset. That the estimation of the useful life of an asset is based on management's consideration that comes from the company's experience when using similar assets. The estimated useful life must be re-examined periodically and if management finds that the useful life of an asset is different from what was previously estimated, adjustments must be made to the current and future depreciation expenses. These standards allow companies to change the useful life of an asset used and can encourage the emergence of conservative profits.

Based on PSAK No.19 concerning intangible assets related to the amortization or depreciation method, it is explained that there are several amortization methods to allocate the amount of depreciation of an asset on a systematic basis throughout its useful life. According to PSAK No. 20 related to research and development costs state that the allocation of research and development costs is determined by looking at the relationship between economic costs and benefits that the company expects to obtain from research and development activities. If it is probable that these costs will increase the economic benefits in the future and these costs can be measured reliably, then these costs meet the criteria to be recognized as assets. With the choice of these methods will affect the numbers presented in the financial statements. So that it can be said that indirectly the concept of conservatism will affect the results of the financial statements.
Watts (2003) states that conservatism is a precautionary principle in financial reporting of a company. The company is not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that have a possibility that occurs. The implementation of this principle raises the choice of accounting methods aimed at methods that report lower earnings or assets and on the other hand report higher debt. The lender will receive downside risk from the balance sheet that presents net assets and financial statements that report the bad news appropriately.

According to Givoly and Hayn (2000) conservatism is interpreted as an activity which is to make initial recognition of costs and losses accounts and delay recognition for income and profit accounts. It concludes that when following accounting conservatism, the value of fixed assets in corporate reporting will be more historical value and not too much towards market value towards the fair value of the company. This has the potential to monitor consistency regarding the principles of historical cost and the accounting concept of conservatism.

The use of historical values in accounting measurements raises many reasons regarding the ability of financial statements and reports for decision makers, namely interested parties such as shareholders. The use of historical values has many advantages. This can be seen as well as objectivity, credibility and reliability to determine the actual profit. But using historical cost has disadvantages, especially can reduce accuracy. With this, it can reduce the quality of accounting information so that it will affect the main objectives of the preparation of financial statements (Najjar, 2013).

With continued criticism from users of accounting data and information on historical value principles, the principle of fair value arises by providing alternatives. The principle of fair value appears in order to deal with deficiencies in historical costs and to improve characteristics that must be available in accounting information including accuracy, competency and prudence (Younis, 2012). Based on (IFRS 13, 2013) regarding fair value, it is interpreted as a measure of the value that can be obtained when selling assets or paid for liabilities at regular transactions between market participants. IFRS also develops a new approach in financial reporting. This was developed to improve transparency, accountability and comparability of a financial report. The forms of implementation are such as increasing the disclosure of qualitative transaction information, deleting accounts from extraordinary transactions, presenting changing financial statements to reflect the nature of financial statements and applying them with a fair value approach.

The application of conservatism will limit the opportunistic behavior of managers. Conservatism is a counterweight if there is a managerial bias with an asymmetrical verification claim, namely that a party gets more information than the other party. So that by trying to balance between opportunistic actions of managers by requiring verification first, reporting will not be too high but not too low. On the other hand, conservatism can increase the value of the company because conservatism limits payments to managers or other parties (shareholders) that are opportunistic (contracting reasons), like transactions that benefit parties outside the company. So it must be verified more deeply based on this concept of conservatism so that it will hinder the occurrence of opportunistic things that will harm the company.

For companies that have the ability to generate profits, inconsistent recognition of gains and losses (delaying recognition of income and accelerating recognition of expenses) will reduce the present value of taxes (delay payment of taxes) and increase the value of a company. The accounting standard breakers and the relevant regulatory authorities will benefit from the fewer opportunities for criticism. This is due to the tendency of companies not to overstate the net asset value compared to if the company understates the net assets (political cost reasons). Thus, for various interested parties that use financial statements as a basis for decision making, the contents of understated financial statements are felt to provide more benefits due to reducing the risk of greater losses. This is compared if the financial statements are reported in overstated. Thus, the possibility of financial report users would prefer the existence of conservatism in accounting.

Research in Indonesia regarding accounting conservatism including Widya (2004) conducted a study of the analysis of factors that influence the choice of companies towards conservative accounting. The findings of Widya (2004) showed the ownership structure, the size of political costs and sales growth are factors that influence the choice of companies towards conservative accounting. According to Moya (2012) accounting conservatism increased after IFRS convergence compared to before IFRS convergence. Juanda (2012) researches on the content of the principle of conservatism in IFRS based financial accounting standards. The findings of Juanda (2012) showed that accounting conservatism still has a role in implementing IFRS. With the uncertainty, there would still be the application of conservatism in the presentation of financial statements.

With the various explanations available, there are still many different results regarding conservatism accounting and will also have the opportunity to increase the fair value of the company. So the researcher wants to discuss this, based on the things that have been described, this study aims to solve accounting problems related to the fair value of companies (companies listed on the Indonesian Stock Exchange). This alignment discussed earlier is conservative having an important function on the fair value of the company. And this research was published from research conducted by Al-Sakini and Al-Awawdeh (2015) which discussed companies in Jordan regarding accounting for conservatism on the fair value of the company. And the findings of Al-Sakini and Al-Awawdeh (2015) showed a low level of conservatism accounting in industrial companies in Jordan. From the results of this study it is necessary to determine
whether conservative accounting practices will affect the fair value of the company or vice versa, and to understand whether conservatism leads to consolidation and increase fair value or to increase fair value for companies in Indonesia. And the results of this study were expected to contribute to the users of financial statements regarding the reporting of conservatism accounting to the fair value of the company. Information obtained will be used by users within the framework of the right decision.

2. CONSERVATISM ACCOUNTING:

Conservatism is the perception of recognizing expenses and obligations as soon as possible even though there is uncertainty about the results later, but only recognizing income and assets when it is certain that they will be accepted. Conservatism can also be defined as a prudent reaction in the face of tightly related uncertainties in the corporate environment to try to ensure that uncertainty and risk in a business or company environment is sufficiently considered. While Watts (2003), defined accounting conservatism as a preference for accounting methods that produce the lowest value for assets and income but produces the highest value for liabilities and costs. And also explained clearly about conservatism defining it by "differential verifiability required for recognition of profits versus losses" (the difference from the level of verification needed to recognize profit compared to recognizing losses).

Smith and Skousen (2007), stated that conservatism is defined as a rule, when there are doubts about several alternative accounting reporting options, then alternatives should be chosen that have the lowest impact on owner's equity. If conservatism is simplified as a provision for carrying out verification of asymmetry for profits and losses, then with this understanding it can be explained that the level of conservatism will increase with increasing levels of verification required to verify gains against losses. Of course in this case verifying gains must be more stringent with many considerations compared to verifying things that cause losses.

In general researchers have the opinion that the importance of accounting conservatism arises from the basics. The first thing is to reduce information asymmetry between managers and investors and related parties who have an interest in it. Accounting conservatism through its role in this case can reduce the impact of the practice of adverse benefits. With this, it increases the credibility of profits and reduces information asymmetry (Basu, 1997) and (Lafond & Watts, 2007). Conservative accounting has the most up-front role in playing an increase in management credibility due to being able to disclose losses in a timely manner (Jaggi & Xin, 2014).

The second thing is that accounting conservatism is an important facility to reduce or if it is possible to sue company management with related parties. This is related to accounting policies resulting in management prosecution. This is due to accounting policies designed to develop higher asset values. So those who are required regarding policies are designed to reduce the value of assets from the possibilities that occur (Jaggi & Xin, 2014). And the third thing is that the tax justification is recognized as the main point to implement conservatism accounting because the recognition is at the beginning if there is a loss and the final recognition for income. So what happens will reduce taxable income in a company and be delayed for the next period Watts (2002).

a. Advantages and Disadvantages of Conservatism Accounting

Conservative accounting has several advantages and features which are mainly as an appropriate tool to deal with optimism and high uncertainty. Things faced by accountants and managers when evaluating assets and liabilities of a company. This results in objective final results and accounting information prepared in accordance with generally accepted accounting standards.

This of course will protect accountants from risks arising from the spread of accounting information that is indicated or proven to be incorrect and accompanied without any valid evidence later regarding the dissemination of accounting information. Users of financial statements will prefer the conservative number. This is because it gives them a bigger margin and also saves from any adverse results or unexpected things (Iqbal & Qdhah, 2014). But at the same time accounting conservatism has several shortcomings or weaknesses as well as contrary to several principles, namely the characteristics and qualitative of accounting information.

As with regard to accounting information including stabilization, comparability, consistency and reliable representation. This can lead to deviations in accounting information and interpreted values differ from the actual values. With this, the possibility or can be indicated can endanger the users of accounting information (Iqbal & Iqdhah, 2014).

b. Conservatism Measurement

According to Watts (2003), conservatism can be divided into 3 measurements, namely Earning (profit)/ Stock Return Relations Measure, Earning/ Accrual Measures, Net Asset Measure. Various researchers have determined several methods of measuring conservatism. The following below are some measurements of conservatism grouped according to the Watt approach (2003):

- Earning (Profit) / Stock Return Relation Measure
Stock market price (stock price in the market) seeks to reflect changes in the value of assets at the time of the change, both changes when experiencing losses or fixed profits that are reported in accordance with the time. According to Basu (1997), the things that arise from conservatism are bad news or good news is reflected in unequal profits (recognition time asymmetry). This is due to an event or event that is likely to cause harm to the company. And companies must immediately acknowledge it, resulting in bad news that is more quickly reflected in profits compared to good news.

- Earning/Accrual Measures

According to Givoly and Hayn (2000), it focuses on the influence of conservatism on the income statement for several years. They have the opinion that conservatism leads to continuous negative accruals. Accrual referred to is the difference between net income before depreciation/amortization and cash flow operating activities. That with this matter the greater the negative accruals, the more conservative accounting will be used. This is based on a theory which states that conservatism delays when recognition of income and accelerates when the use of costs occurs.

- Net Asset Measure

The third measure that can be used to determine the level of conservatism in financial statements is the value of assets that are understatement (recognized later) and overstatement obligations (recognized at the outset). One measurement model is the measurement proxy used by Beaver and Ryan (2000), namely by using the market to book ratio. This illustrates the market value relative to the company's book value. With a ratio of more than 1 indicates a conservative accounting application because the company records the value of the company lower than its market value.

3. FAIR VALUE ACCOUNTING:

In the traditional method when valuing assets and liabilities is based on the principle of historical costs. This requires recognition of assets and liabilities that are in accordance with historical values. Its values are values that have been paid at the time of asset purchase or issued for certain obligations (IASB, 2010). Historical values that are reliable and can be verified because they are based on actual and free from biased transactions. But this sometimes becomes less important in the decision making process. That is because it does not or less reflect the current market conditions, historical cost measurement makes the statement of financial position less significant and realistic. This is based on the past which can lead to loss of information in financial statements for constituents. This affects the feasibility and credibility that makes the main goal of the preparation of financial statements (Paul, 2013).

According to the International Accounting Standards Board (IASB, 2011) fair value is described in the form of obtaining income from the sale of assets or that can be paid to transfer certain liabilities in certain transactions also held between participants in the market at the date of measurement.

In the previous explanation this is defined as the price at which the asset can be exchanged or the payment of its obligations between two parties that already have mutual agreement. And besides that it has the desire to sell or carry out purchasing process activities without having any interests among them (Al-Sa'afein, 2005).

a. Advantages and Weaknesses in the Application of Fair Value Accounting

The application of fair value accounting has a significant advantage and the thing that may be most prominent is revealing the actual reality regarding economic conditions and company profits. With this, it accurately expresses the concept of existing economic values and benefits. Things that are done can adequately reflect the conditions in the company's financial statements. For this reason, the application of fair value is consistent with the main concept of conservatism and considers changes in the purchasing power of money. Using fair value is more appropriate for estimating or forecasting, financial analysis and decision making compared to similar companies (Najjar, 2013).

Although it has a significant advantage as previously explained, but the use of fair value has a weakness. This is like determining and recognizing fair value due to individual perceptions and following different baseline measurements and can lead to many and difficult estimates in the application of fair value accounting to investments, especially in the absence of market prices, as well as useless re-evaluation in some cases (Najjar, 2013). Watts (2006) also states that measurement using fair value is the subject of manipulation, because it is a weak measure of assessment and performance compared to the use of historical values.

b. Fair Value Measurement Approach

Identification of existing international financial reporting standards, namely (IFRS 13 regarding the measurement of fair value) published in 2013. Therefore there are three main approaches to measuring fair value which will be explained as follows (IFRS 13):
• Method with a market approach: in this approach uses price and other related information resulting from market transactions and involves assets, identical liabilities or similar and groups of assets and liabilities (which are in the company).
• Method with a cost approach: this approach is also called replacement costs currently based on the amount needed now to replace the actual (actual replacement costs).
• Method with income approach: this approach uses an evaluation method by replacing future account values (cash flow, income and costs) so that the value is only single or one at a discount, which illustrates current market expectations of value which will come.

4. COMPANY VALUE:

The value refers to the price which is a reasonable and appropriate value of money and must be paid to get it. Company value can also be described as the price that is equal/appropriate for a number of money values and a continuity of fairness of each company (Hawwari & Ubeid, 1999). The amount of value must be determined fairly so that it has a basis in determination. The basic provisions of supply and demand received by all parties that have relevance. The overall value of the company must be disclosed according to its fair value (Shawawreh, 2012).

Stock prices are often associated with investors' point of view in seeing a company with the concept of corporate value. With this concept will be directly proportional, if the goal of maximizing shareholder wealth can be realized then what is done is to maximize the value of the company first. This is considered the most important achievement so that the company's goals are achieved (Sujoko, 2007). This is based on a theory that relates to company value which shows aspects that affect it. The theory agency described that the delegation from the company management to manage the company on behalf of the shareholders. This can help the interests of shareholders because they encourage managers to make and make the right decisions.

4.1 Regular Model of Stock Valuation & Fair Value Calculation

The models developed by researchers include accounting and finance and summation that can be used to calculate the fair value of shares. The following review of the main models includes:

a. Accounting Model

This model is measured in accordance with the standardized values of international accounting, especially on financial reporting that is in accordance with international standards. Regarding (IFRS 13: measurement of fair value) which consists of three approaches to measure fair value including income models, cost models, and market models as described.

b. Financial Model

The financial model is as follows:

- Model diskon dividen: This model is based on the value of shares that are linked to cash flows and which is expected from the value of these shares can be represented in the distribution.
- Valuation profit model: this model is the profitability of the company as the basis for evaluating common stock. This is by dividing profits based on the number of shares issued to calculate the profitability of the shares.
- Double market prices of shares to profitability (price for profit ratio): this model is based on the relationship between profitability and stock market prices. If this relationship has been identified which indicates a double price then the value of the stock can be calculated by multiplying the price doubled on the profitability of the stock. (Zahrah et al., 2013).

5. RESEARCH METHODOLOGY:

The type of data in the research used was documentary data, namely data collected in the form of absolute numbers of financial statements and annual reports of companies listed on the Stock Exchange for the 2014-2016 period. Based on the provisions of the criteria so that can be sampled as many as 365 companies with a total observation of 1,095. Sample selection based on purposive sampling method. Data collection was by taking all companies listed on the IDX. Data was obtained through the official website of the Indonesia Stock Exchange and ICMD (Indonesian Capital Market Directory in 2014, 2015, 2016 and related sites in writing and studying the literature relating to this research).

Research Model

The regression model used in this study is multiple regression analysis. Based on the purpose of the research is to examine the effect of conservatism accounting on the fair value of companies in Indonesia. The model can be formulated as follows:
The MCAP variable shows the company's ability to obtain the fair value (market) it has. In the table above, it can be seen that the average MCAP value is 28.37%. This means that the sample company can obtain a fair value (market) of 28.37% (or around Rp. 2,148,300,000,000) per year on average. The highest value of MCAP is 33.89%, indicating that the company can obtain a fair value (market) of 33.89% of what it has.

The value (conservatism) of CONS in table 4.1 shows that it has an average of 0.885. Based on the previous explanation regarding the measurement of conservatism, on average the companies listed on the IDX do not apply much conservatism to their companies. The highest value is in the CONS 15.80 variable. The lowest value of CONS is -4.46.

The lowest value of Return on Asset ROA is -18.16, meaning that the company experiences a loss so that the company is unable to obtain a return on the assets it has. The highest value of ROA is 43.17, meaning that the company can obtain a profit of 43.17% with the assets it has.

The variable value of Return on Equity ROE indicates that the lowest value is -47.51 means that the company experiences a loss so it is unable to generate profits from its own capital. The highest value of ROE is 143.53% This means that the company can generate profits from its own capital of 143.53%. The mean value on the ROE variable is 9.2801 while the standard deviation (standard deviation) is 15.70478. This shows that the ROE value can be interpreted that the variation between the minimum and maximum values in the observation period is relatively high.

The value of the Debt Ratio DER in the Table shows the lowest value of DER of -31.04 meaning that the company suffered a loss which resulted in not being able to cover all liabilities. The highest DER value that is equal to 13.98 means that the company has the ability to cover debts of 13.98% with its funds. The mean value of the DER variable is 1.7311, which means that the average company can cover the debt of 1.7311 with the funds it has.

Dividend Payout Ratio DPO variable in Table 4.1 shows the highest value on DPO amounting to 175.87 which means that the company can distribute dividends of 175.87 with the company's net profit so that it will add value to the company. The lowest value on the DPO is -5.07, meaning that the company experiences a loss because dividends cannot be distributed properly so that it cannot be covered by the company's net profit.

The total fixed assets TFA variable in Table 4.1 shows that the lowest value is 10.55, meaning that fixed asset can be used to increase investor preference for company shares by 10.55. The highest value of TFA is 32.37, meaning...
that the company can maintain its shares with TFA 32.37% in the event of a crisis so as to increase the value of the company.

The TA Total Asset Value in Table 4.1 shows that the minimum value is 3.21, meaning that the company can only maintain stability in the financial statements of 3.21 at the lowest value. For the maximum value of 34.58, it means that 34.58% of companies can maintain their financial condition so that they can add value to the company. The mean value of the TA variable is 28.65, meaning that the average TA value of the company is 28.6552 or around Rp.4.228,566,092,000, while the standard deviation value is 2,98409. This shows that the standard deviation value (standard deviation) is smaller than the average value (mean), which means that the deviation in the TA variable is not too large.

B. Multiple Regression Analysis

Multiple regression analysis in this study is needed to test the accuracy of the MCAP (dependent variable) with CONS, ROA, ROE, DER, DPO, TFA and TA (independent variables and control variables). The results of regression analysis are in the form of coefficients of each independent variable. This coefficient is obtained by predicting the value of the dependent variable with an equation. In this study multiple linear regression tests were carried out by testing hypotheses namely F test and T test.

- F-Statistics Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7</td>
<td>214.106</td>
<td>82.550</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>1056</td>
<td>2.594</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1063</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), TA, ROA, CONS, DER, DPO, TFA, ROE
b. Dependent Variable: MCAP

Based on the table above, the F value is 82.55 with a significance value of 0.0000. Statistical tests give results with a significant probability level of 0.0000 which means smaller than the value = 0.05. It can be concluded that the model meets the goodness of fit, then the regression model in this study can be used to predict the fair value of the company or in other words that CONS, ROA, ROE, DER, DPO, TFA, and TA, jointly influence the dependent variable namely MCAP.

- T-Statistics Test

This test is conducted to determine the effect of independent variables individually or each of the dependent variables Y.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td></td>
<td>15.868</td>
<td>.616</td>
<td>.000</td>
</tr>
<tr>
<td>CONS</td>
<td>-.073</td>
<td>.043</td>
<td>-.043</td>
</tr>
<tr>
<td>ROA</td>
<td>.049</td>
<td>.012</td>
<td>.168</td>
</tr>
<tr>
<td>ROE</td>
<td>.001</td>
<td>.005</td>
<td>.007</td>
</tr>
<tr>
<td>DER</td>
<td>.071</td>
<td>.021</td>
<td>.086</td>
</tr>
<tr>
<td>DPO</td>
<td>.011</td>
<td>.002</td>
<td>.132</td>
</tr>
<tr>
<td>TFA</td>
<td>.274</td>
<td>.023</td>
<td>.340</td>
</tr>
<tr>
<td>TA</td>
<td>.165</td>
<td>.019</td>
<td>.246</td>
</tr>
</tbody>
</table>

a. Dependent Variable: MCAP

Based on the regression test results in the table above, the regression equation is obtained as follows:

\[ MCAP = 15.868 - 0.073 \text{CONS} + 0.049 \text{ROA} + 0.001 \text{ROE} + 0.071 \text{DER} + 0.011 \text{DPO} + 0.2744 \text{TFA} + 0.165 \text{TA} \]

Based on the multiple linear regression equation above obtained a constant value of 15,814. This shows that the average MACP of the company on the IDX 15,814 with the assumption that the CONS, ROA, ROE, DER, DPO, TFA and TA variables do not experience constant changes.

The influence of each independent variable on the dependent variable individually is as follows:

- **Conservatism (CONS)**, has a negative effect on the fair value (market) of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or the value of
unstandardized beta coefficients is -0.073 with a significance level of 0.091. The results of this analysis indicate that the CONS variable has a negative influence on market capital (MCAP). These results indicate that if conservative accounting practices increase, it will affect the decline in the fair value (market) of the company. This result is consistent with the research conducted by Sakini (2015) which concluded that the high level of accounting conservatism led to a decrease in the fair value (market) of companies in Jordan. In research (Watts and Beaver, 2000) that a value of more than 1 could be interpreted as the occurrence of conservatism. In the results of this study, the average number of companies is not indicated by the practice of conservatism. Whereas it is different from the research conducted by Watts and Zuo (2012) which concluded that accounting conservatism increases the value of the company. So it can be concluded that **Hypothesis One (H1) is accepted.**

- **Return on Assets (ROA)** has a positive effect on the fair value (market) variable of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or unstandardized beta coefficients is 0.049 with a significance level of 0.000. The results of this analysis indicate that the ROA variable has a positive and significant effect on market capital (MCAP). The results are the same as the findings made by Imelda (2011).

- **Return on Equity (ROE)** does not affect the fair value (market) variables of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or unstandardized value of beta coefficients is 0.001 with a significance level of 0.847. The results of this analysis indicate that the ROE variable does not have a significant effect on fair value (market) or market capital (MCAP).

- **Debt to Equity (DER)** has a positive effect on the fair value (market) variable of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or the value of unstandardized beta coefficients is 0.071 with a significance level of 0.001. The results of this analysis indicate that the DER variable has a positive and significant effect on market capital (MCAP). If DER increases, the market capital (MCAP) increases. Different results in the Sakini (2015) study of increasing debt ratios led to a reduction in market value.

- **Dividends Payout Ratio** (DPO) has a positive effect on the variable fair value (market) of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or unstandardized beta coefficients is 0.011 with a significance level of 0.000. The results of this analysis indicate that the DPO variable has a positive and significant effect on market capital (MCAP). The results concluded that the policy of dividend payments affects market value. This result is consistent with the research conducted by (Rajhans and Kaur, 2013) which showed that dividends distributed have a positive impact on fair value (market). But it is different from the research from Sakini (2015) which showed that dividend payments do not affect the market value of the industry in Jordan.

- **Fixed Assets (FA)** has a positive effect on the fair value (market) variable of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or the unstandardized value of beta coefficients is 0.274 with a significance level of 0.000. The results of this analysis indicate that the FA variable has a positive and significant effect on market capital (MCAP). This result is contrary to the research conducted by Sakini (2015) which showed that the ratio of fixed assets does not affect the market value of companies in Jordan. Whereas this result is consistent with research conducted by (Rajhans and Kaur) 2013.

- **Total Assets (TA)** has a positive effect on the fair value (market) variable of companies in Indonesia. Based on the results of the regression analysis test Table above, it can be seen that the regression coefficient or the unstandardized value of beta coefficients is 0.165 with a significance level of 0.000. The results of this analysis indicate that the TA variable has a positive and significant effect on market capital (MCAP). This result is consistent with expected, because an increase in asset size contributes to the valuation of stock values and it increases the market value of the stock and the market value of the entire company. These findings are in line with the research by Putu (2014).

### 7. RECOMMENDATION:

In another study it was shown that the need to exploit aspects of the contradiction between accounting conservatism and fair value to integrate conservative practices within the framework of fair value. And it is expected that in the next study there will be a contribution of auditors in addressing conservatism behavior in analyzing financial statements and systems that help in it.

### 8. CONCLUSION:

The purpose of this study is to examine the effect of accounting conservatism and its reflection on the fair value (market) of companies in Indonesia. Based on the results of statistical analysis, the results show differences in the level of accounting conservatism practices in companies in Indonesia (BEI). The results indicate a variety of results in the
measurements taken. Then it can be concluded that conservatism accounting can be ignored in applying fair value accounting principles and rules. And on the other hand accounting conservatism can be used as a security key to unexpected reflection in the value of assets and income.

**Research Implications**

The results of the study of accounting conservatism on the fair value (market) of the company have implications that companies do conservatism have a reason in presenting their financial statements it is done carefully in recognizing income does not depend on the small or the size of the company but see the market conditions that are happening.

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