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Predicting Future Performance and Dividend Policy by Asset Revaluation and Leverage

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Abstract

This study aims to examine the effect of asset revaluation on the company's future performance and dividend policy through leverage as a mediating variable. Financial statements play an important role as a source of information for stakeholders in predicting the company's future performance. Stakeholder interest in dividends is limited by biased information about the company's future performance through leverage levels and asset revaluation results that can be handled through financial statements in decision making for dividend distribution. Therefore, this study supports agency theory and dividend policy theory. The sample of this research is 205 financial statements of companies listed on the Indonesia Stock Exchange for the period 2012-2019. The analytical method used is Path Analysis. The results show that an increase in asset revaluation reduces the company's level of leverage and future company performance, and an increase in the benefits of asset revaluation increases the company's dividend policy. The increase in leverage has a positive contribution to the company's performance in the future but does not have a significant effect on dividend policy due to the high level of company debt. Meanwhile, leverage does not mediate an increase in asset revaluation on future company performance and dividend policy. This study contributes to the improvement of the model to predict the company's future performance by implementing business strategies on asset revaluation and leverage.

Keywords : Asset Revaluation; Dividend Policy; Future Company Performance; Leverage.
JEL Classification : G17, M41

1. INTRODUCTION

Adjustment of financial statements using the International Financial Report Standard (IFRS) causes many changes in the financial position caused by the application of fair value. In the comprehensive income statement, there is an increase in other comprehensive income items, one of which is asset revaluation, so it is interesting to perform research related to the impact of revaluation of a company's assets on future company performance and how the dividend policy of a company on increasing assets and the level of leverage.

Hopefully, this research can contribute to investors, management, and government regulatory policy holders.

One of the objectives of financial statements is to provide financial information to stakeholders to predict the company's prospects in the future. The application of the asset revaluation method in determining the value of assets in the statement of financial position makes it easier for users of financial statements to predict the company's future performance (Santoso et al., 2017), although this issue is still debatable. Saymeh et al. (2019) and Kusuma (2021) find that a significantly increased revaluation of fixed assets positively led to changes in future performance. However, Chen et al. (2017) show a negative and significant relationship between fixed asset revaluation and the company's performance, price, and future returns. In contrast to these two findings, Graham and Lin (2018) find that expenditures affected by asset revaluation are not related to future profitability.

Presentation of asset revaluation is an exciting issue. The number of financial statements that carry out asset revaluation has increased year by year and provides relevant information to users of financial statements about future cash flows (Edinger et al., 2019). The relationship between asset revaluation and future company performance is that an increase or decrease in asset revaluation affects assets and equity in financial reporting, thus, affecting investor decisions (Diantimala and Sofyani, 2020). One of the ratios that calculate the company's performance in the future is the Return on Equity (ROE). The increase in the value of assets and equity from the revaluation of assets causes the ROE ratio increase, which gives a signal that there is an increase in company profits in the current year and an increase in equity or wealth to shareholders even though it is not in the form of cash because there is no cash flow that occurs (Edinger et al., 2019). Because asset revaluation and net income are interrelated, investors can better interpret earnings (Shi et al., 2017). Therefore, this study aims to examine whether asset revaluation improves the company's performance in the future.

From a practical point of view, an increased revaluation of fixed assets (upward asset revaluation) causes an increase in the value of assets and equity; on the contrary, a decreased revaluation of fixed assets (downward asset revaluation) causes a decrease in the value of assets and equity (Edinger et al., 2019). This increase or decrease causes leverage to decrease in terms of total debt, which remains at the same time, causing an increase or decrease in comprehensive income compared to net income. In the research of Cho et al. (2021) in South Korea, the government allows companies to revaluate assets to strengthen the balance sheet and an effective policy to help companies that are constrained in financing obtain long-term debt loans. Asset revaluation can be utilized by some companies that experience operating losses during the year; by revaluing assets that increase, operating losses become a total surplus so that comprehensive income increases. So, this research investigates whether asset revaluation reduces the level of leverage.

Although income from the revaluation of realized and unrealized assets shows an increase in net worth in financial statements, this influences spending decisions (Graham and Lin, 2018). Marhaendra et al. (2021) state that the main reason for companies to delay profits and losses from revaluing assets is to see market conditions in attracting investors, which are seen as temporary values. Research from Park (2018) related to the market reaction to companies that carry out asset revaluations was responded positively by investors. Therefore, it is crucial for market participants to assess the usefulness of information from asset revaluation to see the possibility of dividend distribution policies by the company. In addition, gains or losses from the revaluation of fixed assets that are deferred and reported by the company in positive financial statements will increase the

owner's equity, resulting in the company's wealth effect. This will give managers the resources and influence to provide a dividend policy. Analysis of how investors evaluate asset revaluation information in the capital market can be an essential basis for making future management policies regarding dividend policy.

The results of previous studies showed an increase in dividend policy in the next year when the company revalued assets (Veltri and Ferraro, 2018). Recent research by Graham and Lin (2018) supports a positive relationship between asset revaluation and dividend policy in the next year, although Chen et al. (2017) state that the company showed a lower increase in dividend policy. So, researchers are interested in testing whether asset revaluation can affect managers' policies regarding dividends.

In addition to asset revaluation, there is also leverage or debt contracts from creditors, which can be an alternative for managers to improve future company performance and dividend policy. There is a desire from management, creditors, and investors to seek benefits from wealth transfers, and wealth transfers are associated with favorable information from financial statements, such as the company's debt level. Creditors have a greater interest because they have risks (Septina, 2022). The motivation for wealth transfer shows that discretionary spending, such as dividend policy, is influenced by the risk and profit-sharing structure between shareholders and creditors and the potential of shareholders to transfer wealth to investors. This effect shows that if debt contracts affect discretionary spending, the company increases dividends by a significant amount and then increases leverage (Graham and Lin, 2018). Because discretionary spending through dividend policy can be motivated by debt constraints and wealth transfers, according to Cooper and Lambertides (2018), no explanation for changes in leverage leads to an increase in dividend policy. So, researchers are interested in seeing whether leverage affects the increase in dividend policy and testing whether changes in the leverage ratio affect the company's performance in the future.

The primary sources of corporate financing in Indonesia are bank loans and the capital market (Permata and Ghoni, 2019). The company carries out revaluation of fixed assets in the hope of reducing the book value leverage ratio, which will encourage funding from creditors (Cho et al., 2021). Estimating the company's soundness, creditors can calculate the book value of leverage in controlling the company's debt. Controlled debt can improve the company's performance in the future (Graham and Lin, 2018). An increased asset revaluation causes an increase in the book value of the company's collateral and reduces the book value of leverage, making it possible for creditors to lend more funds to the company with an increased asset revaluation. Collectively, asset revaluation will affect the company's external financing and assist the company in achieving good performance in the future. Asset revaluation shows a positive relationship to leverage that affects the company's future performance, according to Graham and Lin (2018). The results show that both positive and negative asset revaluations are associated with higher leverage, indicating that the effectiveness of the company's future performance can be influenced by profits earned. Unrealized, the loss is recorded as an asset revaluation. It is, therefore, necessary to see whether the revaluation of assets signals a change in the leverage policy depending on the deficit or surplus of the firm's future performance. This study aims to examine whether leverage mediates between asset revaluation and future firm performance.

Asset revaluation shows a positive relationship to leverage which affects dividend policy according to Graham and Lin (2018) and Chen et al. (2017) have positive and negative effects of asset revaluation on dividend policy for companies with higher leverage,

but only positive asset revaluation affects dividend policy for companies with low debt. Managers actively increase the revaluation of assets such as investments that affect leverage with the company, significantly reducing dividend policy. Although it does not create value directly, asset revaluation can affect dividend policy spending indirectly because of the inherent conflict between investors and creditors(Graham and Lin, 2018). It becomes a question of whether asset revaluation affects increasing dividend policy, indicating a change in the company manages leverage. So, researchers are interested in testing whether leverage mediates asset revaluation on increasing dividend policy.

There are several studies related to asset revaluation, such as Graham and Lin (2018); Saymeh et al. (2019); Kusuma (2021). The novelty of this research looks at the development of the adoption of International Financial Reporting Standards (IFRS) in the presentation of the financial statements of Indonesian companies listed on the Indonesia Stock Exchange (IDX), especially in the implementation of asset revaluation, which began in 2012. There seems to be a lack of studies using leverage as mediation. The usefulness of this research for the company, in this case, the company manager, is expected to provide information about the factors that influence asset revaluation on the company's performance in the future and dividend policy with leverage. For investors to make asset revaluation a signal in investing in companies listed on the IDX. Furthermore, we will explain related to the development of hypotheses, research methods such as data samples and data analysis, results, discussions, and conclusions.

2. HYPOTHESES DEVELOPMENT

Agency Theory

Agency theory studies problems and solutions related to delegating tasks from principals to agents in the context of conflicts of interest between the parties (Solomon et al., 2021)**.** Jensen and Meckling (1976) mention agency costs, separation of problems, and control. The principal-agent problem arises when the principal and agent have incomplete and asymmetric information. This potentially detrimental action of an agent is referred to as an agency problem. Contracts can be designed to allow the principal to reduce agency problems (Maestrini et al., 2018). Eliminating information asymmetry between management, creditors, and investors is an agency problem through their ability to obtain more accurate financial statements through analytical monitoring to reduce concerns due to information asymmetry and agency problems. Companies with unhealthy financial conditions and high levels of information asymmetry show an increased possibility of impairment after revaluating fixed assets. The relationship between fixed asset revaluation and stock price crash risk relies on management's motivation for honesty during the asset revaluation process (Bae et al., 2019).

Managers in charge of managing company finances have complete control over decisions to increase or decrease company performance. One of them is the decision to revaluate fixed assets, which increases the number of assets and equity in the statement of financial position, thereby attracting investors to invest in the company by expecting significant returns in the future and distribution of dividends. Asset revaluation can determine the company's performance in the future. Investors have asymmetric information on the profits of a company. Financial ratios can help investors solve asymmetric information problems, one of which is ROE. Managers have broader information as internal parties who run company operations provide dividend policies to attract investors to invest in their companies. Investors knowing the company's performance in the future will appear to invest in the company because investors have a goal to get dividends, company ownership, and earn profits by reselling them to enrich

themselves. The amount of cash flow that enters the company will also increase its ability to increase its profits so that managers get incentives.

Dividend Policy Theory

Dividends are shareholders' expectations for investments made in an issuer on the placement of investors' funds. Dividends can be a problem between shareholders and company management (Pradana & Sanjaya, 2017). The share of income or net income is determined by the shareholders and ratified at the shareholders' meeting to be distributed based on the number of profits and the value of the shares owned by the investors. The greater the shareholdings, the greater the dividends investors will receive. The company's management's dividend policy determines the number of dividends distributed to shareholders, retained earnings, and reinvested in the next period (Zulkifli et al., 2017).

Effect of Asset Revaluation on Leverage

The company carried out a revaluation of fixed assets in order to strengthen the consolidated balance sheet. The increased revaluation of fixed assets will increase the value of assets and equity (Edinger et al., 2019). The increase in asset revaluation causes leverage to decrease in total fixed debt. Cho et al. (2021) found that companies tend to revaluate assets to increase loan capacity and financial position or reduce debt contract costs. While research by Graham and Lin (2018), asset revaluation shows a positive relationship to leverage. Asset revaluation can be utilized by companies that experience operating losses during the year by revaluing assets that increase operating losses into a comprehensive surplus so that comprehensive income increases. Research from Rahman & Hossain (2020) shows that companies that carry out asset revaluations have succeeded in reducing DER numbers compared to companies that do not revaluate assets.

The first framework links asset revaluation with leverage. This indicates that positive and negative asset revaluations associated with higher debt contracts may be affected by unrealized gains and losses recorded in other comprehensive income. Companies with debt agreements will have increased flexibility when positive asset revaluation and less flexibility when asset revaluation is negative (Graham and Lin, 2018). So the research will test whether asset revaluation can reduce the level of leverage.

H1: Asset revaluation affects leverage.

The Effect of Asset Revaluation on the Company's Future Performance

Managers as agents in charge of managing company finances have complete control over decisions that can increase or decrease company performance, one of which is by making decisions for revaluation of fixed assets which results in an increase in the number of assets and equity in the statement of financial position. Asset revaluation can determine the company's performance in the future. The company's performance in the future is essential for the efficient function of the capital market so that the company's future performance is considered helpful for users of financial information (Asyikin et al., 2018).

The company's performance in the future can be used by internal and external parties to measure the company's effectiveness in utilizing existing funding sources. The company's performance in the future must use all available information effectively. The company's future performance must add hope of the future to the understanding of the past. Many things can affect stock prices through their effects on expected earnings because stock prices reflect the present value of the company's current and future financial performance. Given that income is cash, widely accepted in the literature, the impact of financial information on current income should also persist on future income (Yang & Chen, 2021). The company carries out an asset revaluation policy to increase total assets

and total equity in the statement of financial position; an increase in total equity will also increase the ROE ratio but still refer to the profit before tax for the following year. However, the increase in equity level can open up opportunities for investors to increase the amount of their investment in the company. One of the managers' goals in providing financial reports is to provide information that can be used to predict future events to all stakeholders who need financial information reports, including investors, who are essential for decision-makers (Banks et al., 2018).

Research from Gornjak (2017) found that many companies reclassified their financial assets to improve the performance of financial ratios. One of the ratios that can calculate the company's performance in the future is ROE. The gain from asset revaluation is a better predictor of future cash flows and is more relevant to other comprehensive income (Edinger et al., 2019). Also supported by research from Bareja et al. (2019) finding a significant positive relationship between asset revaluation and stock returns, an insignificant coefficient indicates that the relevance of asset revaluation value is similar when reported in a performance statement or equity statement, a significant negative indicates that investors do not value asset revaluation if they are reported by in a performance statement or both a performance statement and an equity statement. Meanwhile, research from Bae et al. (2019) that revaluation is negatively related to stock prices, similar to research from Graham and Lin (2018); Chen et al. (2017); and Marhaendra et al., (2021) that asset revaluation shows a negative relationship to future company performance with a decline in future performance and asset revaluation has a low predictive value. However, research from Bima and Afri (2017) and Shi et al. (2017) stated that asset revaluation has additional information content on earnings that results in future company performance, disclosure of asset revaluation has a significant effect on earnings management practices, the greater the disclosure of asset revaluation, the greater the company's performance in the future, significantly increasing asset revaluation the ability of net income to influence stock prices.

Previous literature implies that management decision-making should be less dependent on other comprehensive income than income because other comprehensive income items are more related to market fluctuations, and income is more related to firm-specific performance and growth opportunities (Graham and Lin, 2018). Agency theory in the second framework can directly relate asset revaluation to the company's future performance. Therefore, a positive asset revaluation will improve the company's performance in the future and vice versa. If the asset revaluation is negative, then the company's performance in the future will be less good. This can guide investors to break the existing information asymmetry so that the greater the revaluation of assets will affect the company's performance in the future.

H2: Asset revaluation affects the company's performance in the future.

Effect of Asset Revaluation on Dividend Policy

Managers make decisions related to asset revaluation, causing an increase in assets and equity on the balance sheet so that it attracts investors to add their shares to the company by expecting significant returns in the future and dividend distribution. A positive asset revaluation can increase the company's ability to take discretionary spending policies, one of which is the distribution of dividends to shareholders due to the company's increasing ability in terms of equity. In addition to the asset revaluation, it can also increase the company's ability to make discretionary expenditures related to investment, thus causing its profit to increase.

Companies that carry out asset revaluation will create opportunities for investors to invest more in the company, thus making the company's funding better so that the company can pay dividends to investors. Dividend policy spending as a change in net payments to shareholders Graham and Lin (2018) explains that the regression results show a positive relationship between other comprehensive income and discretionary spending in the next year. So that the greater the revaluation of assets, the greater the size of a company's dividend policy. The third framework comes from linking asset revaluation with dividend policy. Research from Al-Waeli et al. (2020) shows that the quality of accounting information affects operational efficiency. Consistent with these results, this can indicate that if the dividend policy is not suitable, it can affect the revaluation of assets so that there is a potentially harmful effect from the recognition of unrealized gains and losses, so investors can make decisions by looking at the comparison between income and expenses.

H3: Asset revaluation affects dividend policy.

The Effect of Leverage on the Company's Future Performance

Managers making decisions to increase or pay off debt will also create investor information asymmetry. Creditors need information regarding the value of collateral than investors. Increasing the value of collateral makes more creditors willing to offer debt. The financial health of companies can be done by stabilizing their finances and reducing debt ratios (Bae et al., 2019). The hope of reducing the debt ratio can improve the company's performance in the future because the allocation of funds can be used for operational expansion rather than having to pay principal and interest on long-term debt. However, research from Graham and Lin (2018) states that companies with high operating costs at fixed costs in their cost structure make leverage ratios high.

The company's policy is to leverage because the number of funds to run operations is not sufficient, so with additional external loans, the company's operations can generally run to improve the company's performance in the future. Research from Cooper and Lambertides (2018) finds that a change in leverage policy changes the conditional response to a future financing surplus. Higher operating leverage indicates that the company will not adjust resources quickly to changes in activity(Canina and Potter, 2018).

H4: Leverage affects the company's performance in the future.

Effect of Leverage on Dividend Policy

The motivation of companies to increase funding through debt to accommodate discretionary expenditures through dividend policies can be explained by the effect on the constraints imposed by debt contracts where there is a dividend distribution that attracts investors who are funding from debt. Potential conflicts between owners and creditors can be reduced through contracts that limit the flexibility of managers (Cohen et al., 2019). The effect of leverage on dividend policy is that by increasing management policies to increase debt levels, the company will have funds to carry out discretionary spending policies, including dividend distribution, investment, and operational activities (Graham and Lin, 2018). If funds from the capital market are readily available, debt loses its role as a managerial control mechanism. The use of dividends also gives a negative signal to investors when companies use debt to finance dividends (Amrullah & Wijaya, 2018). Research by Gusni (2017) shows that leverage negatively affects the company's dividend policy.

The results of López-de-Foronda et al. (2018) show a significant and positive relationship between corporate leverage and investment when financial liquidity is high,

which confirms leverage's role. The results of Cooper and Lambertides (2018) show that a significant increase follows a large increase in dividends in leverage; the debt function can be impaired when money is abundant. A large dividend increase will be followed by a significant increase in leverage, in line with management's policy of increasing dividends to use excess debt capacity.

H5: Leverage affects dividend policy.

Leverage Mediates between Asset Revaluation and Future Company Performance

Linking asset revaluation with the company's future performance (ROE) through leverage which is the income from the company's unrealized asset revaluation, requires operational funds to run operations. Investors can see this opportunity to invest in companies that have increased/positive asset revaluations. With the presence of external funds/investors, operations can run and increase profits in the following year, which will improve the company's performance in the future. Asset revaluation will also affect the company's policy for leverage which is used to assess how the company uses borrowed money to finance its operations and company performance in the future.

Asset revaluation shows a positive relationship to leverage that affects future company performance, according to Graham and Lin (2018). The results show that positive and negative asset revaluations are associated with higher leverage, indicating that unearned profits can influence the company's future performance. Realized, and the loss is recorded in other comprehensive income. The research results conducted by Chen et al. (2017) state that companies show increased asset revaluation, meeting short-term debt benchmarks, lower dividend policies, and decreased future performance. While Cho et al. (2021) stated that companies with financial constraints, namely, having difficulty in increasing long-term debt because of high leverage, can choose to increase the value of fixed assets through asset revaluation, and the value of the company will increase and allow the company to obtain returns from long-term debt. Furthermore, asset-based debt contracts become less restrictive as asset values increase, leading to less scrutiny from investors.

H6: Leverage mediates the relationship between asset revaluation and future performance.

Leverage Mediates between Asset Revaluation and Dividend Policy

Even though the financial statements recorded a total profit, management decided to increase debt to run operations. The increasing asset revaluation indicates the potential for additional cash if there is a sale of assets in the future that has not been realized in cash at this time, thereby increasing the company's need for cash to carry out operations, investments, or distribution of dividends by adding debt from external parties. Cooper and Lambertides (2018)state that signals about discretionary changes in future leverage policies provided by significant dividend increases are additional signals about firm characteristics. The researcher then investigates whether significant dividend increases signal discretionary changes in the way firms manage leverage.

Recognizing unrealized gains can hurt operations due to the amount of cash that is not yet available, so leverage is needed to increase cash funds for discretionary expenses such as dividend distribution, investment, and operations. Asset revaluation shows a positive relationship to leverage that affects dividend policy; companies without debt constraints show the possibility of wealth transfer from creditors to shareholders (Graham and Lin, 2018). In comparison, research from Chen et al. (2017) found the effect of both positive and negative asset revaluation on dividend policy for companies with higher leverage, only positive asset revaluation affected dividend policy for companies with low

debt. Sheikh & Qureshi (2017) that only positive expenditures affected by asset revaluation associated with lower leverage are consistent with potential wealth transfers from debt holders to shareholders. Managers actively increase the revaluation of assets such as investments that affect leverage with the company, significantly reducing dividend policy. This indicates that positive and negative asset revaluations associated with higher debt contracts indicate that the dividend policy may be affected by unrealized gains and losses recorded in other comprehensive income. Although it does not create value directly, asset revaluation can affect dividend policy spending indirectly because of the inherent conflict between investors and creditors (Graham and Lin, 2018).

H7: Leverage mediates the relationship between asset revaluation and dividend policy.

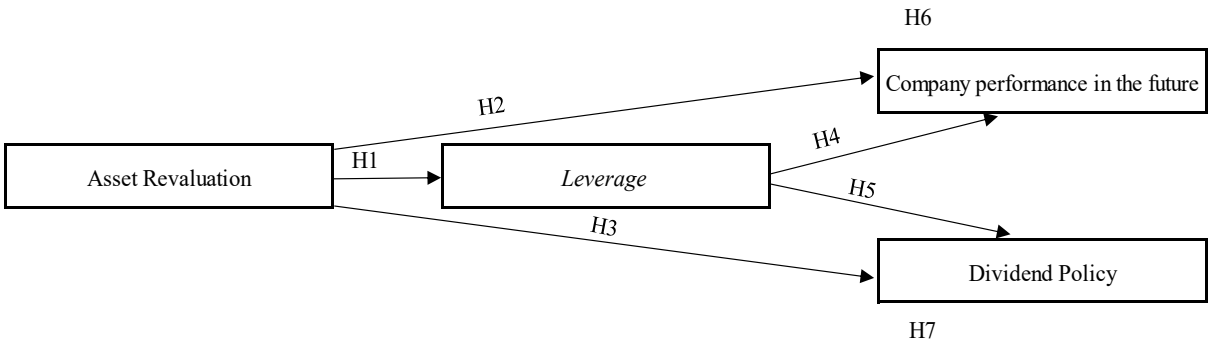

Figure 1. Schematic framework

3. METHOD, DATA, AND ANALYSIS

The nature of the study in this research is hypothesis testing, namely to examine the effect of asset revaluation on future company performance and dividend policy with leverage as a mediator, this type of research is causal, and the research situation is carried out in an unregulated situation and proceeds typically and naturally through financial report data processing. The unit of analysis for this research is the 2012-2019 financial statements of companies listed on the IDX. The time horizon is a time series, i.e., data is collected over several years to answer research questions.

Sample and Data

The research population is the financial statements of companies listed on the Indonesia Stock Exchange from 2012 to 2019 as many as 4,686 financial statements. In summary, the determination of the research sample under study can be seen in Table 1. Based on this number, the research sample was 205 financial statements during 2012-2019; the study used purposive sampling method. The population or financial statements are checked one by one and eliminated on financial statements that do not contain asset revaluation. The criteria for the sample of this research are financial statements that have increased/positive asset revaluations during the period 2012-2019 and pay dividends at least once a year during the period 2012-2019. Secondary data used in research is data obtained directly in books, records, Evidence, and archives that are published or unpublished. The technique of data collection is done through a literature study. Data collection techniques are carried out by taking data from the company's financial statements on the website www.idx.co.id, www.idnfinance.co.id, www.id.investing.com, and the websites of each company.

Table 1. Determination of research samples for 2012-2019

Panel A: Sample Selection

No	Information	Amount
1	Number of financial statements on the IDX for 2012 – 2019	4.686
2	Financial statements that do not contain asset revaluation during the period 2012-2019	(4.225)
3	Financial statements without asset revaluation increased (+) during the period 2012-2019	(56)
4	Financial statements that do not pay dividends at least once a year during 2012-2019.	(200)
	Sample used	**205**

Panel B: Distribution of research samples by year

Year	Number of Samples	Percentage
2012	7	3,41%
2013	6	2,93%
2014	5	2,44%
2015	31	15,12%
2016	42	20,49%
2017	31	15,12%
2018	43	20,98%
2019	40	19,51%
Total	**205**	**100,00%**

Panel C: Distribution of research samples by industry sector

Industrial Sector	Number of Samples	Percentage
Agriculture	4	1,95%
Basic Industry and Chemicals	31	15,12%
Consumer Goods Industry	15	7,32%
Finance	78	38,05%
Infrastructure, Utilities, and Transportation	18	8,78%
Mining	3	1,46%
Miscellaneous Industry	19	9,27%
Property, Real Estate, and Building	16	7,80%
Trade, Service, and Investment	21	10,24%
Total	**205**	**100,00%**

Source: Data processed by researchers, 2022

Variable Operations

In this study, the dependent variable used is the company's future performance, and the dependent variable used is dividend policy, while the independent variables are asset revaluation and leverage as mediating variables. Operational definitions and indicators for these variables are as follows:

(1) Asset revaluation

The definition of *asset revaluation* in Statement of Financial Accounting Standards (PSAK) 1 is a change in the equity of an entity in a financial statement period resulting from financial transactions other than changes resulting from financial transactions with owners in their capacity as investors (Būmane, 2018).

$$RA^t = \frac{\%\ Asset\ Revaluation\ in\ year\ t}{The\ market\ value\ of\ common\ equity\ at\ the\ beginning\ of\ year\ t+1}$$

Using a ratio scale, the indicator used to measure asset revaluation was adopted from Graham and Lin (2018).

(2) Dividend Policy

Dividend policy changes net payments to shareholders (Graham and Lin, 2018).

$$DV^t = \frac{\%\ Dividend\ Payment\ in\ year\ t}{The\ market\ value\ of\ common\ equity\ at\ the\ beginning\ of\ year\ t+1}$$

The indicator used to measure the dividend policy was adopted from the research of Graham and Lin (2018)using a ratio scale.

(3) Future performance of the company

Probability or performance prediction is a relationship between future economic events important for decision-makers (Asyikin et al., 2018). One of the ratios that can calculate the company's performance in the future is ROE.

$$ROE^{t+1} = \frac{Operating\ Income\ in\ year\ t+1}{Total\ Equity\ at\ the\ beginning\ of\ year\ t+1}$$

The indicators used to measure the company's future performance are adopted fromGraham and Lin (2018)research using a ratio scale.

(4) Leverage

The company's leverage is measured as book value, total debt minus the total book value of debt, and a book value of equity(López-de-Foronda et al., 2018).

$$LEV^t = \frac{The\ difference\ between\ total\ assets\ and\ total\ general\ equity}{Total\ common\ equity\ at\ the\ end\ of\ year\ t}$$

Using a ratio scale, the indicator used to measure leverage was adopted fromGraham and Lin (2018).

Analysis Method

The analytical method to test the hypothesis in this study is path analysis or path analysis. This path analysis has advantages over other analytical techniques, which are simpler and easier to do because following the research objective to examine the effect of independent variables on several dependent variables through the mediating variable, the mediating variable is an independent variable that functions to relate to the independent variable to the dependent variable, data The research was analyzed using the IBM SPSS AMOS version 26 program (Statistical Package for Social Science) which combines techniques with interpreting factor analysis and path analysis (Ghozali, 2014). According to Baron dan Kenny (1986), the main advantages of structural modeling techniques are that although the technique is developed for non-experimental data analysis, the context can also be used to analyze experimentally, all interrelated variables are tested directly. Thirdly, complications from direct measurement errors can be entered directly into the model, with the model equation formula as follows:

$$\boldsymbol{LEV^t = \alpha + \beta_1 RA^t + \varepsilon_1} \text{.......................................(1)}$$
$$\boldsymbol{ROE^{t+1} = \alpha + \beta_2 RA^t + \beta_3 LEV^t + \beta_4 RA^t\ x\ LEV^t + \varepsilon_2} \text{...............(2)}$$

$$DV^t = \alpha + \beta_5 RA^t + \beta_6 LEV^t + \beta_7 RA^t x\, LEV^t + \varepsilon_3 \ldots\ldots\ldots\ldots\ldots (3)$$

Where, ROE^{t+1} = Future performance of the company; DV^t = Dividend Policy; RA^t = Asset Revaluation; LEV^t= Leverage.

Table 2. Descriptive statistics

4. RESULTS AND DISCUSSION

Descriptive statistical analysis provides an overview of the characteristics of the data used in the study, following the hypotheses that have been formulated to calculate the average value, standard deviation, minimum value, and maximum value of the analyzed data. The results of the analysis of other comprehensive income variables, leverage, future company performance, and discretionary expenditures are presented in table 2 below.

Normality Test Results

The normality test was carried out using the c.r (critical ratio) value in multivariate. The data was declared generally distributed if the significance level was 0.01, the slope (skewness) or kurtosis was on a value scale of ± 2.58. Based on the calculation results, the four variables of the skewness value are in the range of values between ± 2.58 so that they are typically distributed and feasible to use. The following are the results of the normality test in Table 3

Table 2. Descriptive Analysis

Descriptive Statistics (N = 205)					
Variable	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
RA t	205	0	1,97	0,2246	0,29665
LEV t	205	0,32	3,9	1,4774	0,8423
ROE t+1	205	0,01	2,06	0,3447	0,21337
Dev t	205	0	0,89	0,1183	0,09509
Valid N (listwise)	205				

Table 3. Asesment of normality

Variable	**min**	**max**	**skew**	**c.r.**	**kurtosis**	**c.r.**
Rat	0,002	1,966	2,875	16,808	11,075	32,369
LEVt	0,315	3,904	0,802	4,687	-0,188	-0,55
ROEt1	0,009	2,062	4,068	23,776	27,517	80,422
DEVt	0,002	0,887	3,438	20,098	21,032	61,47
Multivariate					64,535	66,684

The goodness of Fit Model Test Results

The goodness of Fit test results to see the suitability of the model used in the study. The results of the goodness-of-fit model test are described in Table 4. The results in Table 4 show that the model is acceptable. The expected value of X^2 Chi-Square is small. The results of this study indicate a value of 1.111 or below the Chi-Square table value of 3.841. Likewise, the probability value above the cut-off is 0.292 0.05, so the probability is good. The CMIN/DF value of 1.111 2.00 indicates a structural equation model that can be an acceptable fit to the data. The RSMEA measurement index is in expected values, namely 0.08, namely 0.023. This model has been told that the fit model is based on degrees of freedom

Table 4. The goodness of fit indices test results

Goodness of Fit Indices	Cut - Off Value	Result	Model Evaluation
X² Chi Square	Expected Small	1,111	Good
Probability	≥ 0,05	0,292	Good
CMIN/DF	≤ 2,00	1,111	Acceptable fit
RMSEA	≤ 0,08	0,023	Fit
GFI	≥ 0,90	0,997	Better fit
AGFI	≥ 0,90	0,973	Good
TLI	≥ 0,95	0,986	A very good fit
CFI	≥ 0,95	0,998	Good fit

The GFI value of 0.997 0.90 indicates that the structural equation model in the sample covariance matrix is a better fit. The AGFI measurement index is in the range of expected values, namely 0.90, and 0.973. This model can be interpreted at a good level (good overall model fit). The TLI value of 0.986 0.95 indicates a structural equation model, which shows the model is a very good fit. The CFI measurement index is in the range of expected values, namely 0.95, which is 0.998. This model can be interpreted as a good fit level.

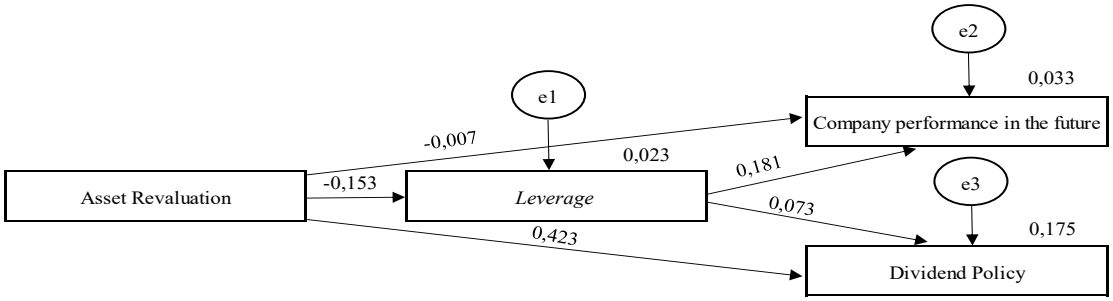

Figure 2. Model Path Analysis Standardized Estimate

Hypothesis Test Results

The goodness of fit criteria of the model have been appropriately met, then an analysis of the relationship between variables can be carried out according to the hypothesis testing that has been made previously. The relationship between variables in the hypothesis is shown by the value of regression weights(Sarstedt, 2019).The results of hypothesis testing carried out by path analysis are presented in Table 5.

Table 5. Hypothesis Test Results

Panel A: Results of regression weights

			Estimate	*S.E.*	*C.R.*	*P*	*Label*
LEVt	<---	RAt	-0,434	0,196	-2,21	0,027	par_5
DEVt	<---	LEVt	0,008	0,007	1,141	0,254	par_1
DEVt	<---	RAt	0,136	0,021	6,572	***	par_2
ROEt1	<---	RAt	-0,005	0,05	-0,102	0,919	par_3
ROEt1	<---	LEVt	0,046	0,018	2,591	0,01	par_4

Panel B: Results of squared multiple correlations

	Estimate
LEVt	0,023
ROEt1	0,033
DEVt	0,175

The value of the Squared Multiple Correlations of the dependent variable leverage in table 5 is 0.023 or 2.3%, meaning that the asset revaluation variable can influence the leverage variable by 2.3%, which is weak. In comparison, the remaining 97.7% is influenced by other variables that are not used in this research. The value of the Squared Multiple Correlations of the dependent variable of the company's future performance in table 8 is 0.033 or 3.3%, meaning that the variable of future company performance can be influenced by the asset revaluation and leverage variables of 3.3%, which is weak, while the remaining 96,7% influenced by other variables not used in this study. The value of the Squared Multiple Correlations of the dependent variable of dividend policy in table 5 is 0.175 or 17.5%, meaning that the discretionary expenditure variable can be influenced by other comprehensive income variables, and leverage is 17.5% moderate influence. In comparison, the remaining 82.5% is influenced by other variables that were not used in this study.

Discussion

Effect of Asset Revaluation on Leverage

The study results in table 5 show that the effect of asset revaluation on leverage has a CR value of -2.21 (P = 0.027). This value is smaller than = 5% or 0.000 < 0.027, which means that asset revaluation has a negative and significant effect on leverage. The estimated value of the asset revaluation variable of -0.434 indicates a negative direction explaining that if other comprehensive income increases by 1%, it will decrease leverage of 43.5%, assuming other variables are constant.

This shows that changes in asset revaluation that increase in the current year will have a negative and significant contribution to a company's leverage or debt policy; namely, an increase in asset revaluation will impact a decrease in leverage or debt to equity. This study contradicts the research of Cho et al. (2021), who found that asset revaluation can increase corporate debt financing and has no significant impact on equity financing. According to López-de-Foronda et al. (2018), company leverage is measured as book value, total debt minus the total book value of debt compared to book value of equity. So it can be said that an increase in asset revaluation in the current year will affect the book value of equity reported in the financial position so that leverage as measured by debt to equity will decrease due to the increased equity value. This is following the statement made by Graham and Lin (2018)that OCI gains will be associated with lower debt constraints, and OCI losses will be associated with more significant debt constraints.

Furthermore, Bao et al. (2020)(Bao et al., 2020)(Bao et al., 2020) found that OCI's incremental volatility affects the probability of default, credit rating, and cost of debt. These results provide helpful information for credit markets and influence various aspects of debt contracts. Taken together, this Evidence suggests that creditors use information from OCI in their assessment of a firm's credit risk and pricing debt contracts.

The Effect of Asset Revaluation on the Company's Future Performance

The study results in table 5 show that the effect of asset revaluation on future company performance has a CR value of -0.102 (P = 0.919). This value is more significant than = 5% or 0.919 > 0.000, which means that asset revaluation has a negative and insignificant effect on the company's performance in the future. The estimated value of the asset revaluation variable of -0.005 indicates a negative direction explaining that if the asset revaluation increases by 1%, it will decrease the company's performance in the future by 0.5%, assuming other variables are constant.

This shows that changes in asset revaluation that increase in the current year will have a negative and insignificant contribution to the company's performance. The increase in asset revaluation will impact decreasing company performance, which is calculated using the following year's ROE. Lewellen and Resutek(2018) state that fair value in accrual reporting can predict increased competition in the future. The nature of a sustainable business shows that the income earned today and the costs incurred today will indicate the income earned in the future and the costs incurred in the future. Asset revaluations may not reflect future performance because unrealized gains and losses reverse against fluctuating exchange rates, discount rates, and growth rates. However, asset revaluation can change the company's value by increasing and decreasing the company's performance (Graham and Lin, 2018). The results of this study are following the research of Edinger et al. (2019);Vanza et al. (2018); Graham and Lin (2018);Chen et al. (2017); Marhaendra et al. (2021); and Bima and Afri (2017) namely other comprehensive income shows a negative relationship to the company's performance in the future, a decline in future performance and asset revaluation has a low predictive value to predict the company's performance in the future. However, research from Arieftiara and Yanthi (2017); Shi et al. (2017); Santoso et al. (2017); Bima and Afri (2017); and López-quesada et al. (2018) stated that proving asset revaluation can predict cash flows and operating activities one year in the future, the greater the disclosure of other comprehensive income, the greater the company's performance in the future, significantly other comprehensive income increases the ability of net income to affect stock prices. , the application of fair value accounting adds value relevance to earnings. Cho et al. (2021) imply that firms do not view asset revaluation as a tool for managing reported earnings.

Effect of Asset Revaluation on Dividend Policy

The study results in table 5 show that the effect of asset revaluation on dividend policy has a CR value of 6.572 (P = 0.000). This value is smaller/same than = 5% or 0.000 ≤ 0.000, which means that asset revaluation has a positive and significant effect on dividend policy. The estimated value of the asset revaluation variable of 0.136 indicates a positive direction explaining that if the asset revaluation increases by 1%, it will increase dividend policy by 13.6%, assuming other variables are constant.

An increase in asset revaluation will impact increasing dividend policy in dividend wealth transfers to investors. This shows that changes in asset revaluation that increase in the current year will positively and significantly contribute to dividend policy. This study follows research by Graham and Lin (2018), which showed a positive and significant relationship between the current year's OCI and future discretionary spending. These results are also supported by several researchers, such as Veltri and Ferraro (2018), and Xiaomeng et al. (2019) test results show an increase in discretionary spending and dividends is very relevant, but the research of Chen et al. (2017) stated that the company showed a lower increase in discretionary spending. Since shareholders will seek wealth transfers for their benefit, wealth transfers will only be associated with favorable information. Consequently, wealth transfer will be associated with positive OCI but not negative OCI. Therefore, unrealized OCI gains and losses may not indicate wealth realization, and related spending decisions would be unreasonable (Graham and Lin, 2018).

The Effect of Leverage on the Company's Future Performance

The study results in table 5 show that the leverage effect on the company's performance in the future has a CR value of 2.591 (P = 0.010). This value is smaller than = 5% or 0.000 ≤ 0.010, which means that leverage has a positive and significant effect on the company's performance in the future. The estimated value of the leverage variable of 0.046

indicates a positive direction explaining that if the leverage increases by 1%, it will increase the company's performance in the future by 4.6%, assuming other variables are constant.

This shows that changes in leverage as measured by DER in the current year will provide a positive and significant contribution to the company's performance in the future; namely, an increase in DER will have an impact on increasing the company's performance in the future as measured by ROE in the following year. This study results follow research (Bima and Afri, 2017)that leverage has a significant effect on earnings management. However, this result contradicts research from Setiawati and Lieany (2016). Namely, empirically, it was found that debt covenants do not affect real income. According to Cooper and Lambertides (2018), companies will increase dividends by significant amounts and increase leverage.

In contrast, firms show a much more convex response to the financing deficit due to increased leverage. It depends on the extent to which managers are constrained by their firm's creditors (Graham and Lin, 2018). It can be concluded that an increase in leverage can improve the company's performance in the future because management has additional funds for operations so that it is more flexible to increase revenue for better performance. However, the increase in leverage also results in an increase in the company's expenses in the future.

Effect of Leverage on dividend policy

The study results in table 5 show that the leverage effect on dividend policy has a CR value of 1.141 (P = 0.254). This value is more significant than = 5% or 0.254 > 0.000, which means that leverage has a positive and insignificant effect on dividend policy. The estimated value of the leverage variable is 0.008 indicating a positive direction, explaining that if the leverage increases by 1%, it will increase the dividend policy of 0.8%, assuming other variables are constant.

Table 6. Mediation test results

Panel A: Result of direct influence, indirect effect, and total effect

Total effect	**RAt**	**LEVt**
LEVt	-0,434	0
ROEt1	-0,025	0,046
DEVt	0,132	0,008
Direct effect	**RAt**	**LEVt**
LEVt	-0,434	0
ROEt1	-0,005	0,046
DEVt	0,136	0,008
Indirect effect	**RAt**	**LEVt**
LEVt	0	0
ROEt1	-0,02	0
DEVt	-0,004	0

Panel B: Sobel test results

This shows that changes in leverage as measured by DER in the current year will provide a positive but not significant contribution to dividend policy; namely, an increase in DER will increase dividend policy in the form of dividend wealth transfers to investors. The results are consistent with the research of Sheikh & Qureshi (2017), which showed that shareholder wealth increased during the test period for firms in the group of long-term debt contracts. So it can be said that increasing DER will also increase the transfer of wealth

Indirect effect		Z - Sobel	Information
Asset Revaluation -- Leverege -- Future Performance of the Company	0,02	-1,673	-1.673 < 1.96 indirect effect is not significant
Asset Revaluation -- Leverege -- Dividend Policy	0,004	-1,016	-1.016 < 1.96 indirect effect is not significant

to shareholders in the form of dividends. These results are also supported by research from Abdallah (2018), which shows that companies adjust debt ratios and relatively high book values to plan goals and use discretionary accruals. Graham and Lin (2018) convey the motivation for wealth transfer showing that discretionary spending is influenced by risk and the structure of profit-sharing between shareholders and creditors and shareholders' potential to transfer wealth themselves. Creditors have a greater interest in monitoring as the risk of default increases. To reduce monitoring costs, creditors enforce stricter debt covenants and reduce the risk of wealth transfer from creditors to shareholders. This shows the existence of agency theory where there is an interest between investors, creditors, and management to get a higher proportion of wealth transfers.

Leverage Mediates the revaluation of assets to the company's future performance

The study results in table 6 show that the total effect of asset revaluation on the company's performance in the future mediated by leverage is -0.025 or more minor than the direct influence value of -0.005, and there is an indirect of -0.02 with a Sobel z value of -1.673. This value is smaller than the standard Sobel value of 1.96 > -1.673. The indirect effect is not significant, which means that leverage does not mediate and is not significant between asset revaluation and future company performance.

This study follows the research of Banks et al. (2018), who found that fair value adjustments, including OCI, can predict earnings for the next 1-2 years. However, not all unrealized gains and losses related to fair valuation included in OCI have similar implications. In contrast, unrealized net gains and losses on available-for-sale securities are positively related to future earnings, unrealized net gains, and losses on derivative contracts and classified as a cash flow hedge that is negatively related to future income and found that a reliable, fair value measurement increases predictive value. This study is also supported by Graham and Lin (2018), who tested and found that the number of coefficients on OCI and the interaction between OCI and discretionary spending was negative. This shows that an increase in the value of asset revaluation directly has a negative and insignificant effect as well as the effect of indirect mediation with little leverage because an increase in asset revaluation will result in a decrease in the amount of DER so that if there is no realization of the increase in asset revaluation and the number of debt decreases, then the amount of debt will decrease. This will result in lower company performance in the future. OCI gains will be associated with lower debt constraints, and OCI losses will be associated with more significant debt constraints. This dual effect indicates that if the contract affects the firm's future performance, expenditure will be associated with positive and negative OCI (Graham and Lin, 2018).

Leverage Mediates between Asset Revaluation and Dividend Policy

The study results in table 6 show that the total effect of asset revaluation on dividend policy mediated by leverage is 0.132 or smaller than the direct influence value of 0.136, and there is an indirect value of -0.004 with a Sobel z value of -1.016. This value is smaller than the standard Sobel value of 1.96 > -1.016. The indirect effect is not significant, which means that leverage does not mediate and is not significant between asset revaluation and dividend policy.

This study follows research from Cooper and Lambertides (2018). No control explains changes in leverage to discretionary spending in increasing dividends and others.

Significant dividend increases signal discretionary changes in the way companies manage leverage, and dividend increases signal changes in leverage policies. Depends on the deficit and surplus of future financing. This result contrasts Graham and Lin (2018)andJenkins and Seiler (1990)that only positive OCI can overcome constraints, and negative OCI can tighten the constraint that firms have more significant amounts of debt that are affected other comprehensive income associated with lower leverage consistently. With the transfer of potential wealth from debt holders to shareholders. Dividend policy that is influenced by asset revaluation will be more likely to occur when companies have high leverage. On the other hand, discretionary spending affected by asset revaluation will be less likely if the company does not have high leverage. Since discretionary spending that is affected by positive asset revaluations can be motivated by debt constraints and wealth transfers, asset revaluation is most likely associated with dividend policies for high-leverage and lower-leveraged firms (Graham and Lin, 2018).

Potential conflicts between owners and creditors can be reduced through contracts that limit the flexibility of managers (Cohen et al., 2019). This suggests that positive and negative asset revaluations are associated with higher debt contracts indicating that the dividend policy may be affected by unrealized gains and losses recorded as asset revaluations. This shows that only dividend policy can affect asset revaluation related to debt contracts consistently lower from debt holders to shareholders. Debt motivation assumes that dividend policy can be explained by the effect of gains and losses on asset revaluation on the limits imposed by debt contracts. Debt can motivate dividend policy influenced by asset revaluation because positive and negative asset revaluations are related to dividend policy.

5. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Conclusion

This study aims to examine the relationship between asset revaluation, leverage, prediction of future financial performance, and dividend policy. Presentation of asset revaluation is an exciting issue. The number of financial statements that carry out asset revaluation has increased from time to time and provides relevant information to users of financial statements about future cash flows. The interest of management, investors, and the government in dividends is limited by biased information on the company's future performance through the level of leverage and the results of asset revaluation that can be handled through financial statements in making decisions for dividend distribution, so this research supports the theory and theory of dividend policy. The results of this study indicate that asset revaluation has a negative and significant effect on leverage. Asset revaluation has a negative and insignificant effect on the company's performance in the future. Asset revaluation has a positive and significant effect on dividend policy. Increased asset revaluation will reduce the company's leverage level and company performance in the future, but increased asset revaluation gains will increase the company's dividend policy. Leverage has a positive and significant effect on the company's performance in the future. Leverage has a positive and insignificant effect on dividend policy. Increased leverage can make a positive contribution to the company's performance in the future but does not significantly affect dividend policy because of the company's high level of debt. Leverage does not mediate and is not significant between asset revaluation and future company performance. Leverage does not mediate and is not significant between asset revaluation and dividend policy, so it can be concluded that leverage does not mediate between increasing asset revaluation on future company performance and dividend policy.

This research contributes to investors being more selective in investing in the capital market as a prospect signal that asset revaluation certainly does not improve company performance but can reduce leverage and increase dividend policy, and high leverage can improve company performance but not dividends. Furthermore, the contribution of this research for government policy makers such as the Ministry of Finance through the Directorate General of Taxes (DJP) and the Financial Services Authority (OJK), which supervises the capital market, urges that companies listed on the Indonesian stock exchange carry out asset revaluation assessments every year because can reduce leverage so that the company's health level is getting better, as well as revalued assets, have a high selling value so that it can increase the value of taxes to increase state revenue.

Limitation and suggestions

This study has limitations on the number of independent variables used in this study, only one variable, namely asset revaluation plus the intervening leverage variable. At least this independent variable makes the value of Squared Multiple Correlations relatively weak influence. The number and criteria for determining the sample in this study are still small, were from 4,686 financial statements during 2012-2019, only 405 (8.64%) financial statements that carried out asset revaluations increased (+) and 205 (50.61%) companies that provided dividend. So that many financial reports are not included in the sample, and the determination of the industrial sector is not carried out, so there are banking and insurance sectors that have high liabilities, resulting in a low level of data normality.

Researchers provide some practical suggestions for company management so that they are expected to routinely perform asset revaluation calculations on each company's annual financial statements following PSAK 16 to realize informative financial reports and provide fair value. Revaluing assets will increase the book value of equity, reducing the DER level, thereby attracting investors to invest and increasing the value of ROE in the future. Dividend policy can be carried out if there is a realization of asset revaluation, for investors to be more careful when deciding to invest in a company by analyzing earnings before other comprehensive income due to the revaluation of assets that have not been realized. Investors must also be careful in analyzing the DER level in the company's financial statements, where companies with low DER levels can improve company performance so that the company's dividend distribution policy can be realized.

Theoretical suggestions from the results of this study indicate that there are still many independent variables other than asset revaluation that might influence the dependent variable if viewed from the Squared Multiple Correlations value. The effect on leverage is 2.3%, a weak effect, 3.3% future company performance. Weak, and dividend policy 17.5% moderate effect. So that further researchers can add independent variables or use other indicators that may affect increasing the dependent variable such as actuarial benefits for defined benefit plans recognized in PSAK 24, foreign exchange differences in PSAK 10, cash hedging in PSAK 55, return on assets (ROA), discretionary investment expenditure, and operational discretionary expenditure, for further researchers to adjust the criteria for determining the research sample by increasing the number of samples such as entering a negative asset revaluation value and removing a sample of financial statements from companies in the banking and insurance sector in order to increase the normality of research data because the liabilities in these companies are relatively high.

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