

CHAPTER I

INTRODUCTION

This chapter outlines the background of choosing the subject, research problem, research questions, objectives of the research, research contributions, scope of the research, and research outline.

1.1 Background

In fair value accounting practices, some changes in fair value of assets and liabilities will be accumulated in net income, and other changes are accumulated in other comprehensive income (OCI). IAS 1 (IASB, 2011) and Indonesian Financial Accounting Standards 1 (PSAK 1) (IAI, 2013) require companies to report OCI. The purpose of financial reporting in accordance with IASB and IAI is to provide useful information for decision makers, information that is relevant and reliable (IASB, 2018; IAI, 2019). Upon the issuance of IAS 1 and PSAK 1, the standard setters have confidence that OCI information is useful for decision makers.

Controversy arises over whether fair value contains useful information for decision making. One study revealed that fair value in financial instruments in non-financial companies has limited value relevance (Simko, 1999). Another study in ten corporate sectors in Nigeria concluded that measuring fair value did not make a significant change in company performance (Amaefule et al., 2018). The reliability is also controversial. Some of the fair value measurements using valuation approach involve estimates and assumptions, and it is possible for management to use wrong assumptions. So, if managers are assumed to have opportunistic attitudes then managers can obtain personal benefits from the estimations and assumptions chosen in producing fair value (Krumwiede, 2008; Shalev et al., 2012).