

ABSTRACT

Impairment of asset occurs when the carrying value of an asset exceeds its recoverable amount. Impairment of asset may be caused by various factors such as significant changes in technology, economic, market, legal scope and impact damage to physical assets deteriorating economic performance of the asset. This study analyzes impairment of asset and its impact on profitability, capital structure, and the market value of companies listed in the Indonesia.

Data obtained from annual reports of companies in Indonesia Stock Exchange from 2011 through 2014, for the entire industrial sector. From the analysis, there are 91 companies that reported an impairment loss in a row during the observation period. The regression analysis and descriptive statistics are used to determine how the effect of asset impairment to profitability, capital structure, and the market value of the company.

The results obtained are as follows. First, asset impairment loss has a significant negative effect on profitability, as measured by the Operating Profit Margin, Net Profit Margin, Return on Assets and Return on Equity. Second, the study also found that the asset impairment loss had a positive significant effect on the capital structure as measured by the Long Term Debt / Total Equity and Long Term Debt / Total Assets. Third, the study found that asset impairment loss had a positive significant effect on the market value of the company.

Keywords—impairment of asset, profitability, capital structure, market value