Preliminary Analysis of Fair Value Method Selection for Investment Property Valuation and Firm Performance in Thailand

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Abstract

This study investigates how the selection of valuation models for investment property, specifically the fair value versus cost model under Thai Accounting Standard (TAS) 40, affects firm performance among companies listed on the Stock Exchange of Thailand (SET). Using panel data from 2012 to 2021, a period encompassing major macroeconomic events such as political transitions, regulatory reforms, and the COVID-19 shock, this research examines whether firms adopting the fair value model exhibit superior profitability outcomes relative to those using the cost model. Preliminary results based on correlation and regression analyses indicate that fair value adoption (FV) is not significantly associated with higher profitability (ROA), suggesting that the perceived relevance of fair value measurement may not consistently translate into operational advantages. Firm size and audit quality are positively related to profitability, while leverage remains a strong negative predictor. The model explains approximately 6.6% of the variation in firm performance (Adjusted $R^2 = 0.066$, $F = 45.19$, $p < 0.001$), underscoring the influence of structural firm characteristics more than accounting method choice. These findings imply that while fair value accounting enhances informational transparency, its economic consequences depend heavily on firm-specific attributes and market stability. The study contributes to the ongoing discourse on the relevance–reliability trade-off in emerging markets and provides preliminary insights for regulators and practitioners regarding valuation policy choices under varying economic conditions.

Keywords

Fair value accounting; Investment property; TAS 40; Firm performance; Thailand; Valuation method choice

1. Introduction

Investment property constitutes an important asset class for many firms, particularly those operating in real estate, hospitality, logistics, and other property-intensive industries. In emerging markets such as Thailand, investment property valuation plays a critical role in shaping the transparency and credibility of financial reporting because asset values frequently account for large proportions of firms' total balance sheets. Under Thai Accounting Standard (TAS) 40 Investment Property, firms are permitted to choose between two distinct post-recognition valuation approaches: the fair value model and the cost model. The fair value model requires periodic remeasurement of property to market-based estimates, with unrealized gains or losses recognized immediately in profit or loss. In contrast, the cost model retains historical cost less accumulated depreciation and impairment, offering greater stability but potentially lower relevance when market values diverge from carrying amounts.

A substantial body of research has examined the advantages and drawbacks of fair value measurement, yet empirical findings remain mixed. Some studies report that fair value provides timely and decision-useful information to investors, particularly in well-developed markets with robust valuation infrastructure. In contrast, other studies caution that fair value may introduce earnings volatility, subjective estimation, and

opportunities for managerial discretion, especially in environments characterized by thin markets, inconsistent professional valuation standards, and uneven audit oversight. These mixed perspectives highlight the ongoing debate about whether the fair value model enhances or detracts from financial reporting quality in emerging economies.

This preliminary study provides an initial examination of the relationship between valuation method choice and firm performance among Thai listed firms. Focusing on return on assets (ROA) as an early indicator of accounting profitability, we explore whether firms applying the fair value model exhibit different performance outcomes compared to those using the cost model. The analysis uses firm-level data from 2012 to 2021, a period characterized by considerable shifts in economic conditions and regulatory developments. By providing initial descriptive and regression-based insights, this conference paper lays the groundwork for the broader empirical analysis planned for the forthcoming journal submission.

2. Literature Review

Accounting standards frameworks such as IAS 40 and its Thai equivalent, TAS 40, recognize investment property as a unique asset class requiring specialized valuation approaches. Fair value accounting has long been posited to enhance financial reporting relevance by providing users with current, market-reflective asset values. Several foundational studies, including Barth (1994), Dietrich et al. (2000), and Muller et al. (2011), document that fair value estimates can be value-relevant and informative to capital market participants. These studies suggest that where reliable valuation mechanisms exist, fair value measurement helps investors form more accurate expectations of firms' future cash flows and risk profiles.

However, concerns surrounding the reliability and subjectivity of fair value estimates persist, especially in less liquid markets. Penman (2007) argues that fair value may unintentionally impair earnings quality by introducing measurement error and volatility, while Christensen and Nikolaev (2013) find that firms in environments with limited valuation expertise or inconsistent governance structures are less likely to benefit from the fair value approach. Emerging markets often face issues such as irregular access to independent appraisers, variation in valuation standards, and differential audit scrutiny across firm sizes. Thai-based studies, including Acaranupong (2017) and Ruksapol (2015), highlight these challenges by showing that valuation reliability and disclosure quality vary substantially across industries, firm sizes, and auditor types.

In addition, fair value adjustments can amplify income volatility because unrealized gains and losses pass directly through profit or loss. This can complicate performance interpretation and affect contractual obligations tied to accounting numbers. Critics therefore argue that the cost model may provide more consistent and less manipulable performance trends, though at the expense of relevance. Given these competing arguments, the empirical question remains open: does fair value adoption translate into observable firm-level performance advantages, or are such benefits muted in emerging market contexts?

This literature review underscores the importance of examining valuation model choice in Thailand, where regulatory convergence with IFRS intersects with market conditions that may moderate the usefulness of fair value. The mixed evidence provides strong motivation for the preliminary analysis presented in this paper.

3. Research Methodology

This study uses firm-level panel data from companies listed on the Stock Exchange of Thailand (SET) over the period 2012–2021. These years represent a decade of relative regulatory stability following the implementation of TAS 40 (Revised 2009) and capture several important macroeconomic periods relevant to property valuation, including market expansion phases, political disruptions, and the emergence of

COVID-19 in 2020–2021. The dataset includes firms that report investment property assets and specify their chosen valuation approach in their annual reports.

The dependent variable for this preliminary study is Return on Assets (ROA), defined as net income divided by total assets. ROA serves as a commonly used measure of accounting profitability and provides an initial lens through which to assess the economic implications of valuation method selection. At this stage of the research, ROA is employed as the primary indicator of accounting profitability because it offers a parsimonious yet widely recognized measure of operational performance in preliminary analysis. Focusing on a single performance metric allows the study to establish an initial empirical baseline before expanding to additional financial and market-based indicators in subsequent stages of the research. More comprehensive modelling, including alternative profitability and valuation measures, will be incorporated in the extended version of the study.

The key independent variable is the valuation method choice (FV), coded 1 for firms using the fair value model and 0 for firms applying the cost model. Control variables include firm size (natural logarithm of total assets), leverage (debt-to-equity ratio), and audit firm quality (indicator variable for firms audited by Big 4 auditors). These variables are selected based on their established relationships with firm performance in prior literature.

Pearson correlation analysis is conducted to examine the direction and strength of associations among variables, followed by an OLS regression using ROA as the dependent variable. Although this regression is preliminary, it serves as a useful step in identifying potential relationships before applying more advanced estimation techniques (e.g., fixed effects, moderation models) in subsequent phases of the project. Statistical significance levels are interpreted using conventional thresholds (1%, 5%, and 10%).

This methodological design ensures systematic early analysis while preserving flexibility to expand the model in the forthcoming journal submission.

4. Preliminary Results

	ROA	FV	lnTAssets	DE	Big4
ROA	1				
FV	-.024	1			
lnTAssets	.125***	-.058**	1		
DE	-.183***	-.115***	-.188***	1	
Big4	.073***	.054*	.093***	-.138***	1

Note: *, **, and *** are the significance levels at 10%, 5%, and 1%, respectively.

Table 1. Pearson correlation coefficients among key variables.

The descriptive and inferential analyses provide several insights into the associations among valuation method choice, firm characteristics, and accounting profitability. The correlation results indicate statistically significant relationships among most variables. ROA is positively correlated with firm size and audit quality, and negatively correlated with leverage, consistent with expectations that larger firms and those with high-quality auditors tend to exhibit stronger performance, while highly leveraged firms face profitability constraints. The correlation between ROA and the fair value variable (FV) is small and negative, though not statistically significant, providing an early indication that the valuation method may not be a primary driver of profitability.

Variable	Coefficient (β)	*t*-value	*p*-value
FV	.001	.325	.745
lnTAssets	.008	8.070	.000***
DE	-.014	-11.291	.000***
Big4	.006	4.545	.000***
Adjusted R^2	.066		
F-statistic	45.187		
Prob (*F*-statistic)	.000		
Durbin-Watson-stat	1.86		
n	2,486		

Note: *, **, and *** are the significance levels at 10%, 5%, and 1%, respectively.

Table 2. The regression results with ROA as the dependent variable.

In the OLS regression, ROA was regressed on FV, lnTAssets, DE, and Big4. The regression confirms the correlation trends. Fair value adoption shows a coefficient close to zero and is statistically insignificant, suggesting no measurable impact on accounting profitability at this stage. Firm size and audit quality are positively related to ROA and are statistically significant at the 1% level, indicating that these structural characteristics play an important role in shaping firm performance. Leverage remains strongly negative and significant, consistent with financial theory that higher debt burdens suppress profitability through interest obligations and increased financial risk.

The model's explanatory power (Adjusted $R^2 = 0.066$) indicates that while the control variables contribute meaningfully to performance variation, valuation method choice does not exhibit predictive power in this preliminary model. Although the Adjusted R^2 is modest, it is typical for profitability studies using cross-sectional or lightly controlled panel settings.

These preliminary findings suggest that in the Thai context, fair value measurement, though more informative from a relevance perspective, may not translate into measurable differences in accounting-based performance measures such as ROA. However, these initial results do not rule out the possibility that fair value could relate to market-based indicators, risk measures, or performance in specific industries. Such extensions will be explored in the full study.

5. Discussion

The preliminary findings contribute to ongoing discussions regarding the implications of valuation model choice under TAS 40. The absence of a significant relationship between fair value adoption and ROA reinforces arguments in the literature that fair value's benefits, particularly its relevance for investor decision-making, do not always manifest in short-term profitability indicators. This aligns with studies suggesting that fair value's primary informational advantages may arise in contexts involving valuation, market signaling, or risk assessments rather than accounting profitability alone.

The positive and significant effect of firm size suggests that economies of scale and organizational capacity influence financial performance more strongly than accounting method choices. Larger firms may have better access to external financing, more stable revenue streams, and stronger governance mechanisms, contributing to higher ROA. Similarly, audit quality, significant in the model, may reflect stronger internal control environments, better compliance with reporting standards, and higher credibility in financial disclosures.

The strong negative association between leverage and profitability is consistent with prior literature. This provides confidence that the regression model behaves predictably, even if FV does not emerge as a key explanatory variable.

A key implication of these findings is that valuation method choice may not inherently improve operational efficiency or accounting profitability in contexts where market volatility, valuation subjectivity, and varying audit enforcement levels influence outcomes. This highlights the importance of considering institutional factors when evaluating fair value reporting in emerging markets. It may be the case that fair value's informational benefits accrue more to external stakeholders such as investors or creditors than to internal profitability measures.

This discussion also underscores the need for a more comprehensive model in the full paper. Future analyses will incorporate additional performance variables, industry-specific effects, and potentially dynamic factors such as switching behaviors between cost and fair value models. These extensions will allow a fuller assessment of how valuation method choice interacts with firm fundamentals and market conditions.

6. Conclusion

This preliminary paper provides early empirical observations on the relationship between investment property valuation method choice and firm profitability in the Thai capital market. Using ROA as the initial performance measure, the results indicate that valuation model selection under TAS 40 does not exhibit a significant association with accounting profitability. Instead, firm size, audit quality, and leverage emerge as more consequential determinants of ROA. These findings reinforce the view that fair value's theoretical benefits related to increased transparency and relevance may not directly translate into improved internal performance metrics, at least not in the Thai context.

The insights gained here serve two important purposes. First, they provide a foundation for the full empirical analysis to be presented in the forthcoming journal article. By identifying which relationships are weak, strong, or inconclusive at the preliminary stage, this study helps refine the modelling approach, variable selection, and scope of analysis for the next phase. Second, the results contribute context-specific evidence to the broader international debate on fair value accounting in emerging markets, where differing institutional structures and market dynamics may influence the outcomes of valuation choices.

The full study will expand on these preliminary findings by incorporating a broader range of performance indicators, including market-based measures, risk indicators, and volatility metrics. It will also explore moderating variables such as industry characteristics and ownership structure to assess whether the valuation method's performance effects differ across firm types. The forthcoming analysis will employ a more rigorous panel data methodology, including fixed effects and potential interaction models.

In conclusion, while fair value adoption does not appear to significantly influence profitability in the preliminary model, this research is only the first step in a broader investigation. The insights presented here support the need for deeper examination and highlight the complex interaction between valuation practices, firm characteristics, and market environments. These findings offer valuable direction for both academics and practitioners seeking to understand how valuation policy choices influence firm outcomes in Thailand.

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