

Research Article

The Effect of Inventory Valuation and Net Profit Margin on Market Value: An Empirical Study of Companies

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Abstract

Market value reflects stock prices on the Indonesia Stock Exchange and is influenced by the interaction between supply and demand. This study aims to analyze the effect of Inventory Valuation Accounting Methods and Net Profit Margin on Market Value in manufacturing companies in the consumer goods industry listed on the IDX for the period 2012–2016. The research sample was selected using purposive sampling of 20 companies. The results showed that, partially, Inventory Valuation Accounting Methods had no significant effect on Market Value. The managerial implications of these findings emphasize the importance of effective company management in improving efficiency and profitability. This is because increasing the Net Profit Margin can directly enhance the company's market value. In contrast, the choice of inventory valuation method has no significant impact on investor perceptions of stock prices.

Keywords: Inventory Valuation Accounting Method, Net Profit Margin, Market Value

JEL Classification: G13, G30, M14

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1. Introduction

Indonesia is a country with a huge population. Along with this large population, consumption levels are also increasing. This large population and high consumption levels make Indonesia an internationally recognized potential target market. A wide variety of products sell well in Indonesia, ranging from automotive and electronics to lifestyle products and other consumer goods. Given Indonesia's high consumption levels, it not only makes it a potential target market for foreign products but also an investment destination for investors (Aziz, 2014).

Investment options in the consumer sector can be a viable alternative to a traditional portfolio when investments in companies from other sectors continue to underperform. For example, the property sector has experienced a significant decline in performance since the BI rate was raised and as a result of the new LTV (Loan-to-Value) regulations. Furthermore, when commodity prices for mining and plantation have not yet shown any increase, the performance of plantation and mining issuers will continue to decline. The declining performance of companies in other sectors has prompted investors to seek alternative investments in sectors that still have growth potential, one of which is the consumer sector (Aziz, 2014).

When discussing consumption figures in Indonesia, it is helpful to use a graph like the one in Figure 1.1. Since the fourth quarter of last year, Indonesia's economic growth has been in decline, driven by weakening consumer purchasing power due to rising inflation and a sluggish business environment. This is compounded by the continued weakening of the rupiah, resulting in Indonesia currently entering a period of economic slowdown. Bank Indonesia's (BI) cash reserves have stagnated, growing by a maximum of only 5.48% compared to last year's Rp 14.8 trillion. The lack of cash is an early indication that our economy is indeed in poor health (Putra, 2015).

Issuers see raising funds through the capital market as another financing option and capitalize on this opportunity by issuing shares. Investors themselves, when making investment decisions in the capital market, also require critical information for capital assessment. Stock prices fluctuate constantly, resulting in significant changes. Therefore, market participants must be able to pay attention to stock prices, which are determined by the laws of supply and demand (Astuti et al., 2016).

A company is founded with various objectives in mind. The primary objective is to maximize shareholder prosperity and profits. This can be used to increase market value, thereby determining investor perceptions of the company, which are reflected in the stock price. The more investors invest, the higher the stock price tends to be (Astuti et al., 2016).

In addition to the income statement, the balance sheet also reflects a company's performance as of a specific date, particularly its asset position. In an economy that tends to experience inflation from year to year, the use of different inventory accounting methods will result in differences in ending inventory values, cost of goods sold, and net profit or loss. Therefore, in addition to driving profit growth, the use of accounting methods can also impact a company's asset growth. Generally, rational investors will respond positively when a company's financial reports indicate that its performance during the current period is strong. Based on this information, investors will determine their bargaining position regarding the company's stock value, which will ultimately affect the company's market value. Therefore, the use of inventory accounting methods will also indirectly impact the company's market value (Christian & Supatmi, 2013).

2. Literature Review and Hypothesis

Supply

Inventory is a crucial asset for any entity, whether retail, manufacturing, service-based, or otherwise. Inventory can also be defined as assets held for sale, in the production process for that sale, or in the form of materials in the production process or the provision of services. Based on this definition, an asset is classified as inventory depending on the nature of an entity's business (Martani et al., 2014).

Net Profit Margin

Profitability ratios are used to measure a company's ability to generate profits. These profitability ratios include the Gross Profit Margin and the Net Profit Margin. Together, these ratios indicate the company's overall operational effectiveness (Horne & Wachowicz, 2015). Net Profit Margin (NPM) is a measure of a company's profitability from sales after accounting for all costs and income taxes. This margin tells us the company's net income per dollar of sales. In other words, this ratio indicates the company's ability to generate a net profit after taxes, reflecting its overall operational effectiveness.

Market Value

Murhadi (2014) defines market value as the price at which a person can buy or sell a share of stock. Market value varies depending on a company's net income, financial position, prospects, and general economic conditions. In almost all cases, shareholders are more concerned with the market value of a stock than with the value of other shares. Based on these definitions, the author can conclude that market value is the value used for transactions in the capital market, reflecting the company's condition resulting from the sale and purchase of shares at varying and fluctuating share prices.

Research Conceptual Framework

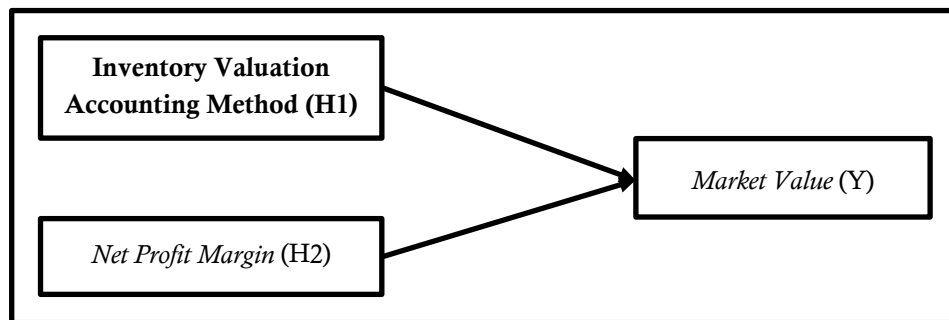


Figure 1. Research Concept Framework

Research Hypothesis

The Influence of Inventory Valuation Accounting Methods on Market Value

The use of different inventory accounting methods will result in different profits. During inflation, the FIFO method produces a higher ending inventory value and net profit than the average method. Conversely, during deflation, the use of the FIFO method produces a lower ending inventory value and net profit than the average method (Maulana & Prasetyo, 2015). Additionally, company size influences the choice of inventory method; large companies tend to opt for valuation methods that can delay profit reporting (Maulana & Prasetyo, 2015). This is supported by Wibowo et al. (2025), who stated that Inventory Valuation Accounting Methods affect Market Value. Based on this explanation, it is suspected that the use of different inventory valuation accounting methods will result in varying market values. Based on this explanation, the hypothesis can be formulated as follows:

H1: Inventory Valuation Accounting Methods affect Market Value

The Effect of Net Profit Margin on Market Value

The net profit margin is included in the profitability ratios, which indicate a company's overall operational effectiveness, calculated by dividing net profit by total sales. According to Horne and Wachowicz (2015), a higher Net Profit Margin (NPM) indicates a more productive company's operational performance, thereby increasing investor confidence in investing in the company. Therefore, it is suspected that different net profit margins will result in different market values. Based on this explanation, the following hypothesis can be formulated:

H2: Net Profit Margin affects Market Value

3. Data and Method

Types of research

This research is designed as a causal study with a quantitative approach. This research design is employed to investigate the impact of inventory valuation accounting methods and net profit margin as independent variables on market value, which serves as the dependent variable. This study emphasizes measuring variables numerically and analyzing data using statistical procedures, using multiple linear regression analysis.

Data Types and Data Sources

The secondary data in this study are collected information in the form of financial reports and stock prices of manufacturing companies listed on the Indonesia Stock Exchange, as well as on the official BEI website (www.idx.co.id) and Yahoo Finance. The data source was obtained from annual financial reports. The observation period was 5 (five) years, namely 2012 to 2016. The data used for this study are time series data, which differ from other designs in that they collect data from the same variables periodically (for example, weekly, monthly, or annually).

Population and Sample

The population in this study consisted of 37 manufacturing companies in the consumer goods industry sector, listed on the Indonesia Stock Exchange, for the period from 2012 to 2016. The sampling technique used in this study was Purposive Sampling. This research sample consisted of 20 manufacturing companies in the consumer goods industry sector that met the purposive sampling criteria. Among the 20 companies, differences were observed in the inventory valuation accounting methods employed. A total of 5 companies applied the FIFO method, resulting in $5 \times 5 = 25$ observations over the 5-year observation period. Meanwhile, the other 15 companies used the Average method, so the total observations during the same period reached $15 \times 5 = 75$ observations.

4. Results

Normality Test

**Table 1. Kolmogorov–Smirnov Test Results Before Transformation
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		100
Normal Parameters a,b	Mean	.0000000
	Standard Deviation	2.29686305E8
Most Extreme Differences	Absolute	.340
	Positive	.340
	Negative	-.271
Kolmogorov-Smirnov Z		3,400
Asymp. Sig. (2-tailed)		.000

Source: Processed Data (2017)

Based on Table 1, the data in this study are generally not distributed because the probability is <0.05 . Normality testing using statistical analysis reveals that the data are not normally distributed, making them unusable for hypothesis testing. Therefore, this study used a data transformation method to normalize the research data.

Multicollinearity Test

Table 2. Multicollinearity Test Results

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
Model		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	13,674	.447			
	MAPP	.059	.512	.011	.853	1,172
	NPM	.199	.035	.527	.853	1,172

Source: Processed Data (2017)

Based on Table 2 above, it can be concluded that all independent variables (X) have a tolerance value greater than 0.10 and a VIF value less than 10, which means that the regression model is free from multicollinearity.

Autocorrelation Test

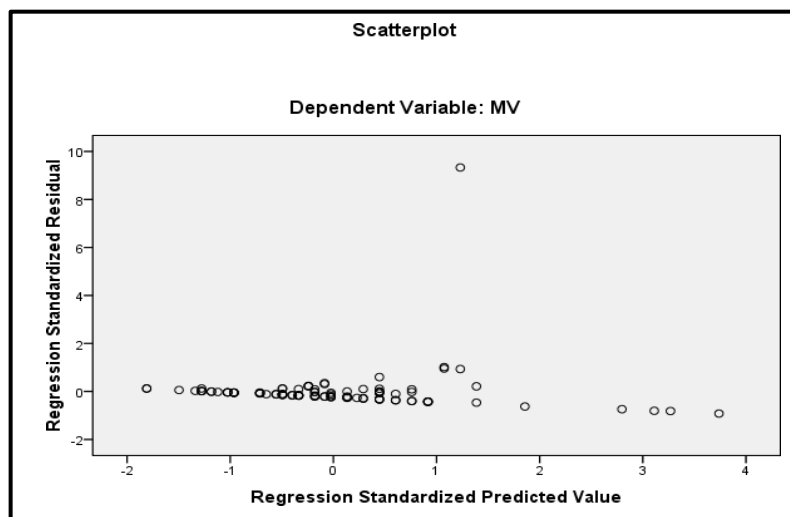
Table 3. Durbin-Watson Test Results

Model Summary					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.531a	.282	.267	2,046	1,791

Source: Processed Data (2017)

Based on Table 3, the Durbin-Watson (DW) test value obtained after data transformation was 1.791. This value was then compared with a significance level of 0.05, a sample size (n) of 100, and two independent variables.

Heteroscedasticity Test



Based on the figure above, this indicates heteroscedasticity. Therefore, this study employed a data transformation method to normalize the research data by converting it into a natural log (LN) form.

Hypothesis Testing

Table 4. Results of the Individual Parameter Significance Test (t-Statistic Test)

Model	Coefficients ^a			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	13,674	.447		30,607	.000
MAPP	.059	.512	.011	.116	.908
NPM	.199	.035	.527	5,654	.000

Source: Processed Data (2017)

Based on the research data from the 2012–2016 period, the results indicate that the Inventory Valuation Accounting Method has no significant impact on Market Value. This is indicated by a calculated t of $0.116 < t\text{-table } 1.988$ and a significance level of $0.908 > 0.05$, so H_01 is accepted and H_{a1} is rejected. On the other hand, the Net Profit Margin is proven to have a significant positive effect on Market Value, with a calculated t-value of $5.654 > t\text{-table value of } 1.988$ and a significance level of $0.000 < 0.05$; therefore, H_02 is rejected and H_{a2} is accepted. This finding suggests that increasing company profitability plays a significant role in enhancing market value. In contrast, the choice of inventory valuation method has a minimal impact on investor perceptions of the company's stock price.

Coefficient of Determination (R^2) Test

Table 5. Results of the Determination Coefficient (R^2) Test

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.531a	.282	.267	2,046

Source: Processed Data (2017)

Based on Table 5 above, this indicates the adequacy of the independent variable's ability to explain the dependent variable, accounting for 26.7% of the variance. In comparison, the remaining 73.3% is explained by other variables not included in this study.

5. Discussion

The Influence of Inventory Valuation Accounting Methods on Market Value

Based on Table 4, the inventory valuation accounting method does not affect Market Value in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2012-2016 period. This means that if the Inventory Valuation Accounting Method is high, it does not impact the increasing Market Value. Conversely, if the Inventory Valuation Accounting Method is low, it does not impact the decreasing Market Value. This also means that the results of the Inventory Valuation Accounting Method on Market Value, which have a higher influence, are those using the Average method rather than those using the FIFO method.

The Effect of Net Profit Margin on Market Value

Based on Table 4, it can be concluded that Net Profit Margin has a positive and significant influence on Market Value in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2012-2016 period, meaning that the higher the Net Profit Margin, the higher the Market Value. Conversely, if the Net Profit Margin is low, the resulting Market Value will also be low. The greater the Net Profit Margin, the more productive the

company's operational performance will be, thereby increasing investor confidence in investing in the company. The findings of this study align with the research of Juita Kowel (2013), which shows that GPM and ROE partially influence Market Value. However, this study contradicts the research by Astuti, Oemar, and Andini (2016) entitled Effect of Inventories, Gross Profit Margin, Profitability, Return on Equity, and Earnings Per Share on Market Value in Manufacturing Companies for the 2009-2015 period, which states that there is no influence between Net Profit Margin and Market Value.

6. Conclusion

Based on the results and discussion of research on the Influence of Inventory Valuation Accounting Methods and Net Profit Margin on Market Value in Manufacturing Companies listed on the Indonesia Stock Exchange in the Consumer Goods Industry Sector for the 2012-2016 Period, the following conclusions were obtained: Inventory Valuation Accounting Methods (X1) have no effect on Market Value, Net Profit Margin (X2) has a positive effect on Market Value.

Managerial Implications

Managers should focus on increasing the net profit margin through effective cost management and pricing strategies, as these have been shown to impact market value positively. The choice of inventory valuation method does not significantly impact company value and should therefore not be a top priority in managerial strategy.

Recommendation

Manufacturing companies in the consumer goods sector should enhance production cost efficiency and pricing strategies to strengthen their net profit margins, for example, by reducing unnecessary operational costs, leveraging technology to improve production efficiency, and adjusting selling prices in response to market demand. This focus on improving profitability will be more effective in increasing market value than changing inventory valuation methods.

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