

## Reclaiming the the accountantâ€™s historic perspec...

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I am at a conference today, and amongst the issues discussed has been the role of accounting in permitting future gains to be discounted to the present and as a result be recognised as profit before the underlying transactions that actually realise that income have taken place.

This reminded me of an article I wrote almost exactly twenty years ago when I warned of the danger of this practice, which became absolutely fundamental to International Financial Reporting Standards, which in turn were fundamental to the accounting which permitted (in a very literal sense) the abuses that resulted in the 2008 global financial crisis. Published by Accountancy Age in December 1997 I wrote:

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### ***An accountant's history of time***

***The Accounting Standard Board's Statement of Principles and the recent exposure drafts – FRED 14 (on accounting for provision and contingencies) and 15 (on impairment of fixed assets and goodwill) – play a very dangerous game: they alter the accountant's perception of time.***

***If you have never done this before, stop for a moment to think about what time really means for an accountant. The passage of time is at the very core of our profession. We measure income over periods of time. We account for net worth at a point in time. We account for tax over time periods defined by legislation. Without the passage of time we would have no purpose.***

***Of course, we are not alone in our preoccupation with time. Physicists challenge our perceptions of what time means and how we can relate to it, making us realise that time is not the absolute it once was. But the accountant's view of time is different, and unique in the field of economic activity.***

***Our approach to time differentiates us from economists. When push comes to***

**shove, only one period of time interests economists. That is today.**

**The past does not count except to define the resources available at this moment. The future is discounted, except for the change in perception it can provide at the moment. Today is what counts.**

**It's a pretty weird view of life and one that has caused untold damage to economies all over the world by promoting the disease known as short-termism.**

**Quite contrary**

**I had always thought that accountants weren't subject to this particular complaint. Now it seems the ASB is determined that we shall be.**

**I think it seriously misunderstands the profession. Its approach risks debasing our special contribution to objectivity in financial reporting.**

**Statement of Principles, FREDs 14 and 15, and no doubt other statements still to come, substantially advance the cause of incorporating discounted future value of cash flows into accounting statements.**

**But this concept is completely contrary to our understanding as accountants. We recognise the past. It is not without reason that we have retained our dedication to historical cost accounting.**

**We have never found a better way to do things. We need to look to the past to appraise today. We also recognise the future.**

**We realise that the action we take today will have a consequence tomorrow.**

**But at the same time we realise that tomorrow is not today. It cannot be guaranteed, nor can it be predicted, and we must always wait for the outcome of events.**

**Life's rich tapestry**

**That is as it should be. It is the nature of life. Far from being boring, it in fact accords with almost all human understanding. People dream, plan and hope for the future, but can't foresee every consequence of what they do today. They perceive the future as an unfolding pattern of behaviour.**

**So do we. We see that reporting past behaviour over a period of time is an important measure of progress against previously specified objectives, and part of the continuing whole.**

***That is why we can allocate cost to periods, even if that cost was incurred before a particular time period started, and even if some of the benefit may arise after the period has ended.***

***The accountant's view of the passage of time is in sympathy with that of most mature individuals. No reasonable person believes that today is the only real issue of concern and that tomorrow can be discounted.***

***Of course we should review how we report economic performance. Of course we must be willing to change to reflect altered perceptions. Continuing debate about what constitutes fair methods of reporting is always necessary.***

***But it's not surprising that the ASB's, in the light of its latest pronouncements, and in particular its Statements of Principles, is so unpopular.***

***Accountants don't recognise the ASB's view of time. The issue is fundamental to our profession and we have to do all we can to preserve our belief that the past, the present and the future are the basis of accounting.***

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I was wrong, of course. Accountants did come to recognise this view of time, and the consequences were dramatic. Securitisation grew dramatically as a result, and so we got the massive mortgage failures of 2008. But, as significantly, we have also seen the rise of recorded wealth, with future discounted earnings now underpinning many corporate balance sheets. And this has had massively negative consequences by reinforcing market concentration and the destruction of investment in alternatives. And all the while the focus on the value of intellectual property has been exacerbated, because its value can be brought forward with discounting, often aided and abetted by recording it tax free in tax havens, which quite literally multiplies the impact of the discounting exercise.

I would suggest then that if only accountants had retained their particular view of time we would live in a more stable, entrepreneurial, valuable, world now where many of the crises in capitalism that have arisen because it has become so divorced from reality would have been avoided.

Of course it could be said that this is wishful thinking on my part. But I beg to differ. I'd say I was right, and accountants do need to apologise very specifically to society for their role in permitting the crisis in capitalism that we now face and ask the most important question that I think might be asked now, which is how they could reclaim their own distinctive perspective on time for the benefit of society at large.