

The time for accounting reform has arrived

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The [new report](#) that I have co-authored with colleagues at the University of Sheffield, Copenhagen Business School and Queen Mary, University of London, featured in the FT yesterday. As [they noted](#):

More than a quarter of the UK's biggest listed companies and a third of large US public businesses spent more on dividends and buybacks in 2019 than they generated in net income, a move that has left many groups at greater risk of collapse.

They added:

"Pre-pandemic excesses", where management focused on maximising short-term shareholder payouts, have "hollowed out" company reserves, according to a study from the University of Sheffield, Queen Mary University of London and Copenhagen Business School. This has left many businesses struggling to cope with the fallout of the coronavirus pandemic.

As to causes:

The report found that 28 per cent of FTSE 100 companies, 37 per cent of S&P 500 firms and 29 per cent of the S&P Europe 350 paid out more in shareholder distributions than they generated in net income in the last available accounting year.

My colleague at Sheffield University Management School, Professor Adam Leaver, is noted as saying:

That while the pandemic at first glance looked like an "exogenous shock", the research showed that "management decisions over the past decade have made companies vulnerable". "Their focus on short-term payouts is going to make the recession even deeper, costs to governments much larger and will extend the need for central bank intervention."

And they note our recommendations:

The researchers called for an overhaul of company law and accounting rules, putting more focus on ensuring management prioritised protecting the capital base and that asset valuations were based on actual transactions “rather than subjective estimations of future cash flows”.

We can hope. What we do know is that accounting cannot survive in its current form: it is way past its fit for purpose date.