

## How is AI fuelling tech company profits?

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The [FT has reported](#) this in a newsletter this morning:

*Big Tech has eased investor concerns about its historic spending binge on artificial intelligence, posting quarterly results that surpassed expectations and showed early signs that AI is boosting earnings. Alphabet, Meta and Microsoft were the clear winners, collectively adding more than \$350bn in stock market value after reporting double-digit increases in revenue and net income.*

The obvious question to ask is how tech companies can already be making significant profits from AI, which profits are significantly boosting their overall share valuation, given that this technology is at such an early stage in its development?

The answer is, in fact, relatively easy to suggest. These companies, according to their own reports, are pouring hundreds of billions of dollars into AI development at present, as they see this as the next “big thing” in tech. When you spend that much as a corporate entity, and when the dividing line between what is capital expenditure and what is revenue expenditure is so fine, then the opportunity to represent that expenditure that might, in other periods, have been charged against profits is now to be added to capital expenditure that is recorded on the balance sheet is very tempting, not least precisely because that does boost profits whilst simultaneously assiting you to meet your claim of pouring billions into investment.

I would argue that this is the simplest explanation as to how tech companies are currently profiting from AI. Simply because of the scale of their investment programmes, overheads and other costs that might otherwise have been expensed are now being capitalised, which boosts their reported profits, and so makes their shares more attractive, and so makes it easier for them to pour more money into AI, whether that is rational to do or not.

And when I talk about overhead cost being redirected, let me be clear, this covers almost every type of cost that these companies will incur, including interest, which under current accounting rules can be treated as a capital expense if being incurred to

support an investment program.

Do I really, as a consequence, entirely trust the financial reporting of these companies at a time when such massive investment programmes are going on, when the expenditure in question could just as easily be written off as a cost? My answer is that I don't, and I would suggest others should be wary. These companies are currently driving the rise in share valuation in the USA, but there may be too many accounting tricks in play for my comfort. All those tricks, I stress, might be well within the currently accepted rules of accounting, but that doesn't mean to say that I am comfortable. I have serious doubts about the capacity of those rules to deliver financial reporting that is genuinely true and fair, most especially in conditions like this, and I have the right to say so.