An Examination of Factors Affecting Financial Statement Placement Order

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Abstract

Research has shown that emphasis can be used to affect perception when financial results are reported. Financial statement placement order is one means of providing emphasis. Our objective is to see if we can identify systematic differences across firms that would help explain the financial statement placement order employed. Using a sample of 400 public companies drawn from four different revenue quartiles, we find that while the balance sheet is much more likely to be the lead-in financial statement, firms leading with the statement of operations are larger and more profitable. These results are relevant to CFOs, auditors, regulators, analysts and investors.

Keywords: financial statement placement order, financial results emphasis, financial performance perception

1. Introduction

On an earnings basis, 1997 was a difficult year for Amazon.com, Inc. Even as sales grew, the company's losses multiplied as marketing and product development expenses increased at a faster rate. In its Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A), for that year, the company indicated that due to a limited operating history, the ". . . Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development. . ." (Amazon.com, Inc., 1997). Amazon's Form 10-K filing for the year ended December 31, 1997 was the company's first annual filing with the Securities and Exchange Commission. In Item 8 of that filing, Financial Statements and Supplementary Data, the company reported the balance sheet first, followed by the statement of operations and the statement of shareholders' equity. The company concluded the financial statement section with the statement of cash flows. At this early stage of operations, where earnings prospects were somewhat bleak, the company was apparently using a balance-sheet lead-in (i.e., balance sheet first) for the financial statements because, arguably, it provided a balance sheet as opposed to an operations statement focus for the financial statements.

Except for a minor change to move the statement of cash flows ahead of the statement of shareholder's equity for the year ended December 31, 2000, the placement order of the financial statements remained the same until the year ended December 31, 2003, when the statement of cash flows was reported first, followed by the statement of operations, the balance sheet and the statement of shareholders' equity. Accompanying this change in the placement order of the company's financial statements was the following statement in MD&A: "Our financial focus is on long-term, sustainable growth in free cash flow,"(Amazon.com, Inc., 2003). As a point of reference, the company defined free cash flow as net cash provided by operating activities less purchases of fixed assets, including capitalized internal-use software and website development. The 2003 annual report was the first time the company indicated a financial focus in its MD&A. With this important addition of a financial focus, the company also changed the placement order of its financial statements, ostensibly to emphasize the importance the company was now placing on cash flow. The order of MD&A was also changed that year. For the first time, the Liquidity and Capital Resources section of MD&A, where a company discusses cash flow and liquidity balances, was moved ahead of the Results of Operations section, where income statement accounts are the focus.

This change in placement order within MD&A was consistent with the new emphasis being placed by the company on cash flow. In its filings with the SEC for the year ended December 31, 2016, Amazon.com, Inc. continues to include its statement about the company's focus on free cash flow. Further, its MD&A continues to report on liquidity and capital resources ahead of the results of operations. The placement order of the financial statements also remains the same, with the statement of cash flows presented first, followed by the balance sheet and statement of operations. The only change is the addition of the statement of comprehensive income, which follows the statement of operations and precedes the statement of shareholders' equity. Amazon's use of the placement order of financial statements to buttress its stated focus on generating free cash flow raises a broader question about financial statement placement order generally. What is the general placement order of financial statements and how do companies decide upon that order? Generally accepted accounting principles do not provide guidelines on the placement order for financial statements. That decision is left to company discretion. We interviewed several partners and senior managers of Big 4 accounting firms responsible for audits of public companies and large private companies to determine if conscious decisions are being made about the placement order of financial statements within an annual report. Among these experienced accountants there was a general consensus that large public companies tend to place the statement of operations first, given the focus of the investment community on earnings. Smaller public companies and private entities tend to put the balance sheet first, as though the primary focus was more on a fiduciary or stewardship responsibility for the resources entrusted to management. As one public company auditor put it, "The primary driver of the order is 'importance' as the company perceives will be seen by the analyst community." (Auditor, 2017). The accountants also agreed that established companies tend to keep the placement order of the financial statements the same as that which had been used in prior years – there is no conscious decision made each year on the placement order of the financial statements. As noted by one, "Companies are not really thinking about the order, however. They've done the order this way for so long that it's not really top of mind anymore." (Auditor, 2017).

One of the auditors noted that companies think of their Form 10-K filings as marketing documents, so they attempt to put their best foot forward throughout the report, including the presentation of financial statements.
We were particularly interested in how a start-up, where prior-year financial statements are not available, might decide about the placement order of its financial statements. The general view of the group here is that,in the case of start-ups, consideration is given to the entity's audience of analysts or investors and which financial statement that audience might find most important. We looked at the Form S-1 Registration Statement for the IPO of Snap, Inc. (Snap, Inc., 2017). While earnings would seem to be of primary importance to the company and its investor community, at this stage of its operations, the company's losses and its consumption of cash are significant. Interestingly, the company places the balance sheet first, followed by the statement of operations and statement of comprehensive income. The statement of shareholders' equity follows next with the statement of cash flows rounding out the primary financial statements. Snap's placement order appears to be consistent with the view that because it has such significant losses and is consuming so much cash, the company would rather put more emphasis on its balance sheet by placing it first among the financial statements.

Can the placement order of the financial statements influence perceptions about financial performance? Placement order could be viewed as a form of emphasis whereby the firm emphasizes the results reported in one statement over another. Research has shown that emphasis can be used to affect investor perceptions. For example, Frederickson and Miller (2004) find that nonprofessional investors' judgments about stock price are affected by pro-forma disclosures when pro-forma earnings are presented first in an earnings release. The authors find, though, that the judgments of analysts are unaffected. Elliott (2006) finds that using a headline to place an emphasis on non-GAAP pro-forma earnings or GAAP earnings in an earnings release, influences nonprofessional investors' judgments and decisions about an entity. Bowen, et al (2005) look at the levels of emphasis placed on non-GAAP pro-forma earnings and GAAP earnings. The authors differentiated levels of emphasis based on whether one of the two measures was first mentioned in the headline of the earnings release, in its first or second paragraph, further down in the body of the earnings release, or only in the financial statements provided at the end of the release. The authors find, ". . . firms emphasize metrics that are more value relevant and portray more favorable firm performance." The authors note that the extent of a firm's media coverage also affects managers' emphasis decisions. Brown, et al (2017) find that the wording of a press release headline can affect investor perceptions. The authors find that when a press release headline uses a specific term like "net income" as opposed to a general term like "results", investors who use a mobile device place more weight on the information related to the headline than investors who use a computer.

Thus, companies may use emphasis as a means of swaying perception, and that emphasis can have an effect on perception about financial results. In this paper we look at financial statement placement order as a form of emphasis. Our objective is to see if we can identify systematic differences across firms that would help explain the financial statement placement order employed. We find that while the balance sheet is by far the more common lead-in financial statement, company size and financial performance are key factors in determining which financial statement, the statement of operations or the balance sheet, is presented first in a complete set of financial statements. Larger, more profitable firms tend to lead with the income statement.

2. Design

Using data for public companies trading in the U.S. provided by COMPUSTAT from Wharton Research Data Services (WRDS), we use revenue data to collect firms into one of the following four quartiles: those with revenues greater than $30 billion, with revenues between $1 billion and $2 billion, with revenues between $300 million and $500 million, and those with revenues between $50 million and $70 million. These revenue divisions were made to help ensure that we had marked size differences among the four groups. In addition to revenue data, we collect total assets, shareholders' equity, net income and operating cash flow. We also collect the Global Industrial Classification (GIC) sector classification for each firm, identified as one of ten sectors: Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Healthcare, Financials, Information Technology, Telecommunications and Utilities. For each quartile, we identify the first 100 firms, giving us a sample of 400 companies drawn from four revenue groups. For each of the 400 sample companies; we examine the Form 10-K annual report filing with the SEC for 2015. For each firm, we record the placement order of the financial statements and the name of the Big 4 auditor. We use "other" to designate the auditor for companies audited by a firm other than one of the Big 4. With the collected data we are able to examine the effects of size, of sector, of various measures of financial performance, and of auditor identification on financial statement placement order.In particular; we measure size using revenue and total assets. We measure financial performance using return on equity (net income / shareholders' equity) and key drivers behind return on equity, namely, net margin (net income / revenue), asset turnover (revenue / total assets) and financial leverage (total assets / shareholders equity). As one additional metric, a measure of cash flow performance, we calculate net cash margin (operating cash flow / revenue). We group the firms depending on whether the statement of operations or the balance sheet is presented first. We then calculate the median of each of the financial performance metrics and, using the nonparametric Mann Whitney U two-tailed test, we seek to determine if there are significant differences between the groups leading with one financial statement or another.

3. Results

We begin by looking at the financial statement placement order for all 400 sample firms. For brevity, we refer to the statement of operations as the income statement. Across the sample, 127 companies (31.75% of the total sample) report the income statement first, while 272 companies (68% of the total sample) report the balance sheet first. As we have noted, one company, Amazon.com, Inc., presents the statement of cash flows first. Please refer to Table 1, Panels A and B, where the placement order of the financial statements for firms reporting the balance sheet first and for firms reporting the income statement first, respectively, are presented.

Table 1. Financial Statement Placement Order for Firms Presenting the Balance Sheet First (Panel A) and Income Statement First (Panel B)

Panel A

Balance Sheet First	272	100%
BS - IS - SEQ - CF	227	83.5%
BS - IS - CF - SEQ	43	15.8%
BS - SEQ - IS - CF	2	.7%

Panel B

Income Statement First	127	100%
IS - BS - SEQ - CF	55	43.3%
IS - BS - CF - SEQ	67	52.8%
IS - CF - BS - SEQ	4	3.1%
IS - SEQ - BS - CF	1	.8%

IS – Income statement (Statement of Operations)

BS – Balance sheet
SEQ – Statement of shareholders' equity
CF – Statement of cash flows

As noted in Table 1, Panels A and B, the balance sheet is the more popular option for the first financial statement presented. A total of 272 firms out of 400 or 68% present the balance sheet first. Further, firms that present the balance sheet first are much more likely (83.5% of the time) to follow the balance sheet with the income statement, the statement of shareholders' equity and the statement of cash flows.[1] A subset of 15.8% of the balance-sheet-first firms presents the statement of cash flows before the statement of shareholders' equity. There is a minority of two, or .7% of the balance-sheet-first firms, that present the statement of shareholders' equity after the balance sheet and before the income statement and the statement of cash flows. It is interesting that these firms would choose to prioritize the balance sheet and statement of shareholders' equity, two statements that emphasize financial position, over the two statements, the income statement and statement of cash flows, that detail financial performance.[2]Among the firms presenting the income statement first, the balance sheet is the more likely option for the financial statement presented second. In the sample, 96.1% of the companies present the balance sheet second. A little over half of these firms present the statement of cash flows before the statement of shareholders' equity with the remainder presenting the statement of shareholders' equity ahead of the statement of cash flows.

Table 2. Selected Financial Measures for Firms Presenting the Balance Sheet First (Panel A) and Income Statement First (Panel B) (Dollars in millions)

Panel A.

Balance Sheet First Medians						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$319	$1,222	6.98%	4.03%	57.98%	242.71%	10.44%

Panel B.

Income Statement First Medians						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$30,852***	$16,584***	12.50%***	6.04%*	78.31%***	261.39%	12.05%

Return on equity–Net Income / Equity
Net margin –Net Income / Revenue
Asset turnover –Revenue / Total Assets
Financial leverage –Total Assets / Equity
Operating cash margin –Operating Cash Flow / Revenue

*** Significantly larger than the respective measure for the balance sheet first firms at the .01 level.
** Significantly larger than the respective measure for the balance sheet first firms at the .05 level.
*Significantly larger than the respective measure for the balance sheet first firms at the .10 level.

Table 2, Panels A and B, present median revenue, total assets and the median of the identified measures of financial performance, namely,return on equity, net margin, asset turnover, financial leverage and net cash margin, for firms presenting the balance sheet first and for firms presenting the income statement first, respectively. As presented in Table 2, Panels A and B, the income-statement first firms are significantly larger than the balance sheet firms. Median revenue for the income statement firms is $30,852 million, versus $319 million for the balance sheet firms. The income statement firms are also more profitable, with median return on equity (i.e., net income / shareholders' equity of 12.50% versus 6.98% for the balance sheet firms. The income statement firms also report higher net margin (net income / revenue) and higher asset turnover (revenue / total assets).

[1]When presented separately from the income statement, we treated the statement of comprehensive income as a continuation of the income statement.

[2] The two firms are Walgreens Boots Alliance, Inc. and Isabella Bank Corp. Both companies are profitable and generating positive operating cash flow.

While median financial leverage (total assets / equity) and operating cash margin (operating cash flow / revenue) are higher for the income statement firms, there is no statistically significant difference between the income statement and balance sheet firms on these metrics at the .10 level. Table 3 reports the number of firms, by size quartile, presenting the income statement or balance sheet first. The financial statement presented first is referred to as the "lead-in" financial statement.

Table 3. Lead-in Financial Statement by Size Quartile (Dollars in millions)

Size Quartile	Median Revenue	Income Statement First	Balance Sheet First	Total
1	$56,223	64	35	99
2	$1,822	45	54	100
3	$319	14	87	100
4	$59	4	96	100

In Quartile 1, one company, Amazon.Com, Inc., presents the statement of cash flows first.

In reviewing Table 3, of particular note is the prevalence of the income statement as the lead-in financial statement in quartiles 1 and 2, which contain the larger firms in the sample. The smaller the firm, the more likely that the balance sheet will be reported first. In quartile 4, which contains the smallest firms in the sample, 96 of 100 firms present the balance sheet first. Tables 4 through 7present revenue, total assets and the various measures of financial performance for the firms presenting the balance sheet first (Panels A) and for firms presenting the income statement first (Panels B), within each of the four size quartiles.

Table 4. Selected Financial Measures for Quartile 1 Firms Presenting the Balance Sheet First (Panel A) and the Income Statement First (Panel B) (Dollars in millions)

Panel A.

Quartile 1 Balance Sheet First Medians (35 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	OperatingCash Margin
$53,231	$39,946	13.82%	2.53%	178.00%^^	273.65%	5.10%

Panel B.

Quartile 1 Income Statement First Medians (64 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$57,113	$84,434***	18.70%**	8.00%***	78.90%	310.69%	11.73%***

***Significantly larger than the respective measure for the balance sheet first firms at the .01 level.

** Significantly larger than the respective measure for the balance sheet first firms at the .05 level.

* Significantly larger than the respective measure for the balance sheet first firms at the .10 level.

^^Significantly larger than the respective measure for the income statement first firms at the .05 level.

As presented in Table 4, Panels A and B, within quartile 1, the size differences and the financial performance measures for the firms that lead with the balance sheet and for those that lead with the income statement are consistent with the overall sample results. At $57,113 million and $84,434 million, respectively, for the income statement firms, median revenue and total assets are higher than the $53,231 million and $39,946 million, respectively, observed for the balance sheet firms, though there is only a statistically significant difference between the income statement and balance sheet firms for total assets. Further, median return on equity, at 18.70%, and net margin at 8.00%, are higher for the income statement firms than the 13.82% and 2.53%, respectively, observed for the balance sheet firms. Possibly explained by the fact that they carry fewer assets, asset turnover, at 178.00% for the balance sheet firms, is significantly higher than the 78.90% observed for the income statement firms. Finally, operating cash margin, at 11.73% for the income statement firms, is significantly higher than the 5.10% observed for the balance sheet firms.

Table 5. Selected Financial Measures for Quartile 2 Firms Presenting the Balance Sheet First (Panel A) and the Income Statement First (Panel B) (Dollars in millions)

Panel A.

Quartile 2 Balance Sheet First Medians (54 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$1,814	$2,339	8.57%	3.94%	78.00%	228.57%	7.93%

Panel B.

Quartile 2 Income Statement First Medians (46 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$1,839	$2,446	7.78%	6.38%	72.00%	236.33%	13.02%

In this quartile, there are no statistically significant differences between the balance sheet and income statement firms on any of the size or financial performance metrics examined.As presented in Table 5, Panels A and B, statistically significant differences in size and financial performance measures for the balance sheet and income statement firms are not obtained in quartile 2.

Table 6. Selected Financial Measures for Quartile 3 Firms Presenting the Balance Sheet First (Panel A) and the Income Statement First (Panel B) (Dollars in millions)

Panel A.

Quartile 3 Balance Sheet First Medians (87 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$320^^^	$622	5.20%	6.38%	53.00%	212.49%	14.17%

Panel B.

Quartile 3 Income Statement First Medians (13 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$309	$365	9.96%**	6.38%	78.31%	166.80%	15.90%

**Significantly larger than the respective measure for the balance sheet first firms at the .05 level.

^^^Significantly larger than the respective measure for the income statement first firms at the .01 level.

As presented in Table 6, Panels A and B, in quartile 3, median revenue of $320 million for the balance sheet firms is significantly higher than the $309 observed for the income statement firms. The only other metric for which there is a significant difference is return on equity, where at 9.96%, the measure for the income statement firms is larger than the 5.20% for the balance sheet firms.

Table 7. Selected Financial Measures for Quartile 4 Firms Presenting the Balance Sheet First (Panel A) and the Income Statement First (Panel B) (Dollars in millions)

Panel A.

Quartile 4 Balance Sheet First Medians (96 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$59^^	$214^	5.11%	6.81%	26.52%	278.27%	13.10%

Panel B.

Quartile 4 Income Statement First Medians (4 firms)						
Revenue	Total Assets	Return on Equity	Net Margin	Asset Turnover	Financial Leverage	Operating Cash Margin
$56	$39	8.01%	4.54%	144.27%*	172.77%	4.65%

* Significantly larger than the respective measure for the balance sheet first firms at the .10 level.

^^ Significantly larger than the respective measure for the income statement first firms at the .05 level.

^ Significantly larger than the respective measure for the income statement first firms at the .10 level.

Table 7, Panels A and B, presents the results for quartile 4, the smallest 100 firms in the sample. As noted, 96 of the quartile 4 firms lead their financial statements with the balance sheet. Only four firms in this quartile lead with the income statement. In this quartile, median revenue at $59 million and median total assets at $214 million are larger for the balance sheet firms than the $56 million and $39 million, respectively, observed for income statement firms.
It should be noted, however, that the large number of balance sheet firms in this quartile likely had an impact on the results. Among the financial performance measures, only asset turnover, at 144.27% for the income statement firms was significantly larger than the 26.52% observed for the balance sheet firms.Generally, among the size quartiles, the results observed for the sample as a whole are only obtained in quartile one. The prevalence of the balance sheet as the lead-in financial statement among quartiles two, three and four, appears to diminish the differences between the income statement and balance sheet groups observed in the sample as a whole and in quartile one.Table 8 presents a summary of lead-in financial statements by Global Industrial Classification sector.

Table 8. Lead-in Financial Statement by GIC Sector

GIC Codes	GIC Sectors	Income Statement First	%	Balance Sheet First	%
10	Energy	13	35.14%	24	64.86%
15	Materials	7	53.85%	6	46.15%
20	Industrials	23	43.40%	30	56.60%
25	Consumer Discretionary	16	30.77%	36	69.23%
30	Consumer Staples	12	46.15%	14	53.85%
35	Healthcare	14	35.00%	26	65.00%
40	Financials	16	14.81%	92	85.19%
45	Information Technology	12	24.49%	37	75.51%
50	Telecommunication	2	33.33%	4	66.67%
55	Utilities	12	80.00%	3	20.00%
	Total	127	31.75%	272	68.00%

GIC – Global Industrial Classification

% – Percent of firms within each GIC Sector and within the total sample reporting the income statement and balance sheet first. The total number of firms sums to 399, because Amazon.com, Inc. presents the statement of cash flows first.

Table 8 indicates that most industries follow the sample-wide approach and have a prevalence of firms that report the balance sheet first. There are exceptions, however. For example, while nearly evenly split, more firms within the Materials sector report the income statement first. Companies in the Materials sector are primarily from the first and second size quartiles, comprised of larger firms that tend to report the income statement first. Median revenue for the income statement firms in this sector is $1.9 billion, while it is $1.7 billion for the balance sheet firms. The three distinctively larger firms in the group, with revenues of over $30 billion all report the income statement first. Similarly, the two smaller firms of note in the group, with revenues of $300 million, both report the balance sheet first. In the Utilities sector, 80% of the firms report the income statement first. Firms in this sector also tend to be larger than the sample as a whole. In the Utilities sector we find that the income statement firms, with median revenue of $1.8 billion, are larger than the balance sheet firms with median revenue of $323 million.

Table 9 presents a summary of lead-in financial statements by auditor.

Table 9. Lead-in Financial Statement by Auditor

Auditor	Number of Observations	Income Statement First	%	Balance Sheet First	%
Deloitte	72	29	40.28%	43	59.72%
KPMG	59	20	33.90%	39	66.10%
EY	87	35	40.23%	52	59.77%
PwC	78	32	41.03%	46	58.97%
Other	103	11	10.68%	92	89.32%
Total	399	127	31.83%	272	68.17%

Note: Of the 400 companies in the total sample, one firm, Amazon.com, Inc., reportedthe Statement of Cash Flows first. EY is the auditor of Amazon.com, Inc.% – Percent of firms for each auditor and within the total sample reporting the income statement and balance sheet first. The total number of firms sums to 399, because Amazon.com, Inc. presents the statement of cash flows first.

Table 9. Lead-in Financial Statement by Auditor

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KPMG	59	20	33.90%	39	66.10%
EY	87	35	40.23%	52	59.77%
PwC	78	32	41.03%	46	58.97%
Other	103	11	10.68%	92	89.32%
Total	399	127	31.83%	272	68.17%

Note: Of the 400 companies in the total sample, one firm, Amazon.com, Inc., reportedthe Statement of Cash Flows first. EY is the auditor of Amazon.com, Inc.% – Percent of firms for each auditor and within the total sample reporting the income statement and balance sheet first. The total number of firms sums to 399, because Amazon.com, Inc. presents the statement of cash flows first.

As presented in Table 9, none of the Big 4 auditors stand out as having clients that employ lead-in financial statements that are significantly at odds with the overall sample. Generally, the Big 4 have clients that employ the balance sheet first. Their clients do use the income statement first somewhat more frequently than the overall sample. This result likely obtains from the fact that Big 4 firms tend to audit larger companies.From Table 9 it can be seen that auditors other than the Big 4 (labeled as "other" in Table 9) tend to have clients who employ the balance sheet first more often than other companies in the sample. This result likely obtains from the fact that non-Big 4 auditors tend to audit smaller companies.

Conclusion

Size matters. More specifically, size and financial performance are key factors in determining whether a company chooses to provide the statement of operations, or income statement as it is more commonly known, or the balance sheet, as the lead-in financial statement. Our objective is to see if we can identify systematic differences across firms that would help explain the financial statement placement order employed. Anecdotal data suggest that firms are using the placement order of their financial statements to provide emphasis and affect perception about financial performance and position. We identify a sample of 400 public companies drawn from four different revenue quartiles. In addition to financial data for each firm, we identify the sector in which each firm operates and the firm's auditor. The balance sheet is much more likely to be the lead-in financial statement. Of the 400 companies in the sample, 272 (68.00%) present the balance sheet first while 127 (31.75%) present the statement of operations (income statement) first. One firm, Amazon.com, Inc., presents the statement of cash flows first. In examining the factors that may drive the lead-in financial statement decision, we note that firms leading with the statement of operations are larger based on revenue and total assets. Further, they are more profitable, reporting a higher return on equity and higher net margin. Their asset turnover is also higher. There is no statistically significant difference, however, between the groups on financial leverage or operating cash margin. The size differences for firms providing the income statement and balance sheet as their lead-in financial statement also holds within quartile one. However, in quartiles two through four, as firm size declines and the number of firms reporting the income statement first declines markedly, the income statement firms are no longer generally larger than the balance sheet firms. Further, in terms of financial performance, there is no consistent outperformance by the income statement firms relative to the balance sheet firms. Speaking with audit partners and senior managers of Big 4 accounting firms, one quote stands out as demonstrating the key driver behind the decision as to which financial statement should be presented first, "The primary driver of the order is 'importance' as the company perceives will be seen by the analyst community."

Given the prevalence of companies leading with the balance sheet, and given the size and financial performance of firms leading with the statement of operations relative to the balance sheet firms, it would appear that the statement of operations firms are attempting to put emphasis where it belongs first and foremost – the statement of operations. Larger companies have much more analyst coverage than smaller firms. Financial analysts have the responsibility for forecasting earnings and, as such, the statement of operations is their primary focus. The firms they cover are aware of this focus and strive to place priority on their performance on this dimension. Smaller firms likely have little to no analyst coverage. As such, there is a lesser need for an emphasis on the statement of operations.

For firms presenting the balance sheet first, the statement of operations is more likely to be presented second, followed by the statement of cash flows and the statement of shareholders' equity. For firms presenting the statement of operations first, the balance sheet is likely presented as the second statement. Firms are rather evenly divided on whether the statement of cash flows or the statement of shareholders' equity is presented third or fourth. The results observed in this study, that is, the prevalence of the balance sheet as the lead-in financial statement, are also generally supported by the results observed for the ten industry sectors examined. There are two exceptions, Materials and Utilities, where the income statement is presented first. This result is likely explained by the fact that both sectors tend to have larger firms than the sample as a whole. Clients of the Big 4 auditors also tend to report the balance sheet first.

Here again, however, because their clients are likely larger in size than firms in the sample as a whole, the prevalence of the balance sheet as the lead-in financial statement is not as strong as observed in the sample as a whole. However, for non-Big 4 auditors (referred to as "other" in the study), firms that likely audit smaller companies than the Big 4 auditors, the balance sheet is reported as the lead financial statement more frequently than in the sample as a whole. These results are relevant to CFOs, auditors, regulators, analysts and investors. CFOs are tasked with the responsibility of presenting the financial statements. The decision on financial statement placement order may have been made years or even decades earlier. It is likely a decision that has not been reexamined since it was originally made. Maybe it should be. As companies grow and become more established, there appears to be a decided emphasis on placing the statement of operations first. As to auditors, based on anecdotal results, it would appear that they are not giving active consideration to the placement order of financial statements. In a consulting role to management, it may be time that financial statement order is considered. Regulators, such as the FASB and SEC, may wish to consider financial statement placement order as a means of standardizing financial statement presentation. Finally, these results are especially relevant to analysts and investors. Research has shown that emphasis can be used to affect perception of financial results. Analysts and investors should be forewarned to avoid allowing financial statement placement order, a form of emphasis, to affect their perception of financial results. These results are especially relevant when companies are observed to employ a financial statement placement order that varies from the norm of leading with the balance sheet or income statement. In such instances, the reporting firms are taking particularly strong steps in an effort that may be designed to affect perceptions regarding financial performance.

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