Chapter 8
A Review of Current Applications of AI and Machine Learning Methods for Financial Statement Analysis

K. Dheenadhayalan
https://orcid.org/0009-0009-0334-7249
Sri Sairam Engineering College, Chennai, India

Joel Jebadurai Devapitchai
https://orcid.org/0000-0002-6947-8497
St. Joseph's College of Engineering, India

R. Surianarayanan
https://orcid.org/0009-0009-3144-8055
SA Engineering College, India

S. Usha
Sri Sairam Engineering College, India

ABSTRACT

Artificial Intelligence (AI) is playing an increasingly vital role in the field of financial statement analysis. AI methodologies, such as Deep Learning, Machine Learning, and Natural Language Processing, are being employed to enhance the analysis of financial data. This study explores the applications of AI in financial statement analysis, including Predictive Analytics, Anomaly Detection, Trend Analysis, Financial Report Automation, Risk Evaluation and Control, Comparative Analysis and Benchmarking, Portfolio Optimization, Risk Assessment and Management, Fraud Detection and Forensic Analysis, and Regulatory Reporting and Compliance. The chapter includes case studies, industrial insights, and practical applications of AI in financial statement analysis, highlighting the tangible benefits and opportunities for businesses in the finance sector. Additionally, the chapter addresses the challenges and potential future applications of AI in this domain.

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1. INTRODUCTION

The rapid adoption of artificial intelligence (AI) has profoundly transformed traditional financial statement analysis, particularly in today's fast-paced, data-driven financial ecosystem. Financial institutions, businesses, and analysts are facing an unprecedented volume of data, and as a result, the capacity to efficiently analyze, interpret, and derive insights from this data has become a critical factor in decision-making. AI has emerged as an essential tool in this context, offering a powerful means to quickly process vast datasets, identify hidden patterns, and develop predictive models that can significantly improve financial analysis and decision-making.

One of AI's most significant advantages in financial analysis is its ability to automate traditionally time-consuming tasks such as data extraction, cleaning, and preparation. This not only accelerates the financial analysis process but also reduces the possibility of human error, thus enhancing the accuracy and reliability of financial reports. With AI, financial professionals can focus more on strategic decision-making, while routine tasks are handled with greater efficiency. Machine learning algorithms can rapidly identify financial trends, assess risks, and predict future financial outcomes with remarkable precision. These capabilities help analysts make more informed decisions about investments, portfolio management, and long-term financial planning.

The integration of AI into financial statement analysis also holds the potential to revolutionize risk management. By leveraging machine learning techniques, AI can detect subtle trends and anomalies that might be overlooked by traditional analysis methods. For example, AI systems can identify hidden risks in financial statements—such as irregularities in financial ratios or signs of financial misreporting—before they become significant issues. Additionally, AI systems can analyze external data sources, such as news articles, social media sentiment, and broader market trends, to offer a more comprehensive view of a company's financial health and trajectory. This holistic approach to financial analysis provides a broader context, capturing not only the numbers but also the sentiments and perceptions that can influence market outcomes.

Furthermore, AI's capacity to predict financial performance based on historical data allows for more accurate forecasting, helping organizations to make proactive decisions in response to anticipated market conditions. This predictive power is particularly valuable for investment managers and financial analysts seeking to stay ahead of market trends, optimize portfolios, and respond quickly to market fluctuations. AI-driven models have been used to enhance investment strategies, facilitating better asset allocation and more informed decision-making regarding risk exposure.

Despite these advancements, the widespread use of AI in financial statement analysis does raise important ethical, transparency, and data privacy concerns (Safaei & Zadeh, 2024). While AI offers immense potential, it is crucial that it is deployed responsibly, complementing, rather than replacing, human judgment. As AI algorithms increasingly make decisions that affect financial outcomes, ensuring that these systems are transparent, interpretable, and aligned with ethical standards is essential for maintaining trust and accountability in the financial sector. As financial institutions continue to integrate AI into their operations, stakeholders must carefully navigate these challenges to ensure that AI remains a positive force in enhancing financial decision-making and accountability.

This chapter provides a detailed examination of the role of AI in transforming financial statement analysis. It is structured into five sections, beginning with an exploration of the goals and methodology used in financial AI applications. The second section investigates the various AI methods employed in financial analysis, followed by an analysis of how these methods are applied to specific tasks, such as