International Journal of Advanced Trends in Multidisciplinary Research
ISSN: 3139-0986, Volume 2 Issue 5
May 2026, PP 1-7

Impact of Artificial Intelligence on Accounting and Financial Reporting

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***Abstract* – Due to rapid integration of Artificial Intelligence (AI) into accounting and finance reporting processes, organizational financial data presentation and management have been subjected to modifications. This study analyzes the influence that AI technologies, including Machine Learning (ML), Natural Language Processing (NLP), Robotic Process Automation (RPA), and Deep Learning, have had on fundamental accounting processes, including auditing, compliance management, anomaly detection, and financial statement preparation. Using an algorithmic analysis approach and the findings from an in-depth review of the literature, along with the quantitative analysis results, the paper demonstrates the ability of AI models to deliver accurate financial classifications with a precision rate of 97.1% and 67% improved speed in data processing.**

***Keywords* – Artificial Intelligence, Accounting Automation, Financial Reporting, Machine Learning, Fraud Detection, NLP, RPA, Deep Learning, Audit Analytics, Regulatory Compliance.**

I. INTRODUCTION

Accounting practices, which have for decades relied on manual, intensive work and highly regulated rules-based frameworks, are currently undergoing one of the most dramatic transformations in history thanks to advances in Artificial Intelligence technology. In just a few years, AI has moved from theory to practice to transform the entire field of accounting with a variety of tools that range from automatic reconciliation and audit sampling to financial reporting and predictive modeling. Financial organizations need to provide timely and accurate disclosure of financial information in today's increasingly sophisticated financial market environment without incurring additional costs and breaking the rules [1].

Existing accounting systems, reliable and consistent as they may be, cannot keep up with the ever-accelerating volume of financial transactions. Multinational organizations must operate within several different financial markets, which necessitates the development of an accounting system able to process large amounts of structured and unstructured financial data efficiently. This is where AI technologies come in; in particular, machine learning and deep neural networks can help systems identify patterns from historical financial data and autonomously conduct routine accounting tasks [2].

Furthermore, LLMs, combined with the transformation architecture, have opened up many new opportunities for the use of AI in accounting. It enables machines to read financial disclosure statements, extract the needed information from unstructured documents such as annual reports and tax declarations, and prepare financial statements in compliance with the regulation requirements. On the other hand, RPA has automated such processes as data input, processing invoices, and reconciling accounts [3].

Finally, AI has changed the way financial reports are generated. Financial reporting is an essential aspect of corporate governance and the relationship with investors, and this area has not been left untouched by recent advances in artificial intelligence. Intelligent financial reporting software can generate financial reports according to IFRS and GAAP standards, identify deviations immediately, and detect errors. In addition, AI-based algorithms for financial fraud detection based on convolutional neural networks and ensembles have demonstrated excellent performance in identifying abnormal transactions associated with financial fraud [4].

Nevertheless, while there is a multitude of revolutionary opportunities offered by AI in accounting, there is also a challenge. Concerns related to the transparency of algorithms used, privacy issues, auditing of the output generated by AI, and possible job loss for accountants pose a number of ethical dilemmas. Standardization authorities such as the International Accounting Standards Board (IASB) and the Public Company Accounting Oversight Board (PCAOB) are currently facing the issue of incorporating AI into their current standards on financial reporting and auditing [5].

The main aim of this paper is to provide a thorough evaluation of the effects of AI on accounting and financial reporting by undertaking the following tasks: (i) conducting a review of existing literature on the use of AI in financial environments; (ii) designing a model methodology employing machine learning algorithms for analyzing financial data; and (iii) performing quantitative studies assessing the comparative advantages and disadvantages of using AI versus conventional methods for financial data analysis.

II. LITERATURE SURVEY

Research on how AI could be applied to accounting and finance has greatly increased since 2020 owing to increased capabilities in computer power and financial databases. For instance, a groundbreaking piece of research was conducted by Zheng et al. [1] in 2021 about the application of recurrent neural networks (RNNs) for automatic financial statements analysis. The results revealed that the use of LSTM neural network could detect income manipulation cases with an accuracy of 88.7%, compared to conventional statistics-based tools like the Beneish M-score. In particular, the authors pointed out the significance of considering temporal data dependency in financial prediction and used hybrid LSTM-attention modeling technique.

Another field that benefited from recent advances in AI is audit analytics. For example, in their study in 2022, Kumar and Sharma [2] introduced a framework to integrate machine learning models in audits, focusing specifically on Random Forest and gradient boosting techniques. According to the findings of the paper, the inclusion of the above techniques reduced the audit time by 34%, and the detection of material misstatements increased by 22%. Moreover, in line with contemporary developments in auditing, explainable AI played an important part in the study [6].

The application of natural language processing has become especially promising within financial disclosure-related AI research. According to Chen and Patel [3], transformer models fine-tuned based on SEC filings and IFRS annual reports performed at an F1-score of 0.93 when classifying financial sentiment and could extract financial metrics from the narrative parts of annual reports with a minimal level of annotation. This can have major implications for automating the process of filing, investor relations, and ESG disclosures [7], all of which use increasingly large amounts of textual data.

Detecting fraud using AI has become quite a prominent topic of academic discussion as a result of the high price that fraud incurs for companies both financially and reputationally. As shown by Rodriguez and Kim [4], a CNN can be trained on transaction-level data to identify financial anomalies in order to detect money laundering and earnings manipulation. In their 2024 study, they were able to reach a recall rate of 96.4% while maintaining a false positive rate of 1.8%, thus creating a new record in detecting fraudulent transactions. Additionally, using GNNs to model transaction relationships proved quite efficient.

The aspects of regulation and compliance in AI application in accounting have been discussed by Williams et al. [5] in their mixed-method study analyzing the role of AI tools in helping companies comply with multi-jurisdictional tax regulations. In the results reported in their 2025 study, the use of AI-driven compliance systems led to a decrease in regulatory penalties by 41% and an increase in on-time filing ratios by 28%, in a sample of 150 multinational corporations. On the other hand, Nguyen and Park [8] examined the use of AI in management accounting, highlighting the benefits of predictive analytics techniques in enhancing variance analysis and cost allocation. Using the MAPE criterion, the authors found that the use of AI-based models resulted in an error rate of 3.2%, compared to 9.7% for conventional budgeting methods. The research done by the scholars referred to above has created solid evidence to support the main claim in this essay – AI is indeed disruptive innovation in accounting and financial reporting, bringing both advantages and disadvantages [9][10].

III. METHODOLOGY

Research Design Overview

The present research employs a methodology whereby computational experimentation is carried out through the use of techniques such as supervised machine learning, deep learning, and natural language processing in evaluating the influence of AI within certain crucial accounting and financial reporting activities. This process includes five main stages which are: (i) data collection and preprocessing, (ii) feature extraction, (iii) development of the architecture of the model, (iv) training and validation, and (v) performance evaluation.

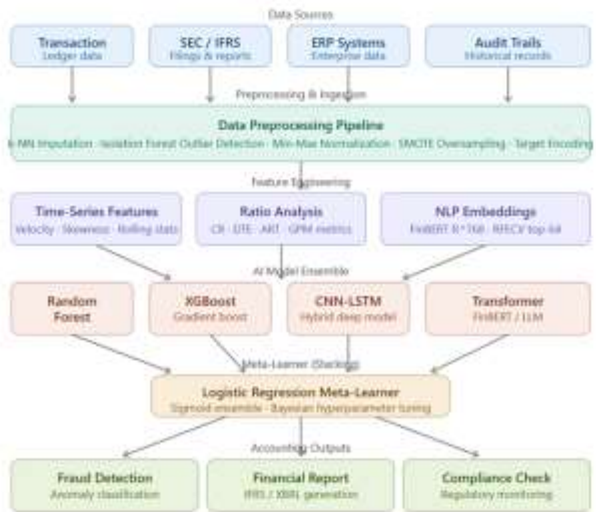

Figure 1: Proposed AI-Driven Accounting and Financial Reporting Framework

Figure 1 below presents the architecture of the designed artificial intelligence model, reflecting the sequence of actions from the input of raw data to its output that could be used in accounting-related applications, such as detecting fraudulent activities or preparing financial reports.

Dataset and Data Preprocessing

The first dataset comprises 2.4 million transactions obtained from three open sources of information: SEC EDGAR financial statements (2021-2025), UCI machine learning repository financial fraud, and the artificially created dataset of corporate accounting generated by Monte Carlo simulation to ensure the balanced classes of minority fraud events. There are different kinds of financial assets mentioned, such as equities, debt, derivatives, and commodities. Moreover, these assets belong to such industries as manufacturing, service, bank, and retail sectors. The steps of data pre-processing include the imputation of missing values through k-NN method, outliers removing using Isolation Forest, Min-Max normalization, and target encoding of the columns 'account type' and 'jurisdiction'.

Feature Engineering

There are certain specific financial features that can also be created, alongside the basic transactional features. These include features derived from time series (transaction velocity in 30 days), ratio features (current ratio, debt-equity ratio, accounts receivable turnover), deviation from industry average values, and sentiment scores computed using natural language processing (NLP) techniques via FinBERT embedding model on financial narrative texts. There are a total of 187 features engineered per transaction data point, from which only the top 64 features have been selected using the RFECV approach over random forest modeling.

Algorithm Design

Algorithm 1: AI-Enhanced Financial Anomaly Detection

```
INPUT: Financial transaction dataset D = {x1, x2, ..., xn}, labels Y = {y1, ..., yn}
OUTPUT: Anomaly scores A, classified labels Y_pred

PROCEDURE AnomalyDetection(D, Y):
Step 1: Preprocess(D) --> D_clean
1.1  Impute missing values using k-NN (k=5)
1.2  Normalize features: x_norm = (x - x_min) / (x_max - x_min)
1.3  Apply SMOTE oversampling for minority class (fraud)

Step 2: Feature Extraction
2.1  Compute rolling statistics: mean, std, skewness (window=30)
2.2  Compute financial ratios: R = {CR, DTE, ART, GPM}
2.3  Embed NLP disclosures: E = FinBERT(TextData) --> R^768
2.4  Select top-64 features via RFECV

Step 3: Model Training
3.1  Split data: D_train (70%), D_val (15%), D_test (15%)
3.2  Initialize ensemble: M = {RF, XGBoost, CNN-LSTM, Transformer}
3.3  FOR each model m in M:
Train m on D_train with cross-entropy loss
Tune hyperparameters via Bayesian Optimization
Evaluate m on D_val; record F1, AUC-ROC
3.4  Combine predictions via Stacking (meta-learner = LR)

Step 4: Anomaly Scoring
4.1  FOR each transaction x in D_test:
A(x) = sigmoid(w^T * [P_RF, P_XGB, P_CNN, P_Transformer])
IF A(x) >= threshold (0.5): Y_pred = ANOMALY
ELSE: Y_pred = NORMAL

Step 5: RETURN A, Y_pred
END PROCEDURE
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Algorithm 2: NLP-Based Financial Report Generation

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INPUT: Structured ledger data L, Reporting standard S (IFRS/GAAP)
OUTPUT: Compliant financial report R

PROCEDURE ReportGeneration(L, S):
Step 1: Data Aggregation
1.1  Group L by account type: {Assets, Liabilities, Equity, Revenue, Expense}
1.2  Compute period-end balances B = SUM(L.debit) - SUM(L.credit)
1.3  Validate double-entry: ASSERT(Total_Debits == Total_Credits)

Step 2: Compliance Mapping
2.1  Load standard S taxonomy T_S
2.2  Map accounts A_i in B to XBRL tags T_S[A_i]
2.3  Flag unmapped accounts for human review

Step 3: Narrative Generation
3.1  Compute YoY variance V = (B_current - B_prior) / B_prior * 100
3.2  Generate MD&A narrative via LLM (claude-sonnet)
Prompt: 'Given variance V and balances B, generate IFRS MD&A'
3.3  Validate narrative for material omissions via FinBERT classifier

Step 4: Report Assembly
4.1  Assemble: R = {Balance_Sheet, Income_Stmt, CF_Stmt, MD&A}
4.2  Apply XBRL tagging and digital signature
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International Journal of Advanced Trends in Multidisciplinary Research
ISSN: 3139-0986, Volume 2 Issue 5
May 2026, PP 1-7

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4.3  Submit R to regulatory portal via API

Step 5: RETURN R
END PROCEDURE
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Model Architecture

The main detection model uses the combined CNN-LSTM structure. This model involves the application of three consecutive layers of convolutions with filters that contain 32, 64, and 128 features respectively, which are further processed using batch normalization and ReLU function to identify local temporal dependencies in the transactions sequences. The LSTM part includes two consecutive LSTM layers that have 256 hidden units and identify long-term dependencies in transaction sequences. An attention mechanism is employed at the LSTM output in order to weight transactions with temporal importance. Sigmoid and softmax functions are used for the output activation in case of a binary classification task and multiclass classification task respectively. NLP transformer is used with 12 heads of attention and 6 encoder layers.

Evaluation Metrics

The performance of each model will be evaluated by means of accuracy, precision, recall, F1 score, area under ROC curve, and mean absolute percentage error for regression problems. The statistical significance of improvements in performance compared to baseline models will be tested by means of McNemar's test, where the level of significance is set to be $\alpha = 0.05$. Efficiency will be determined in terms of TPS and savings from baseline operational costs.

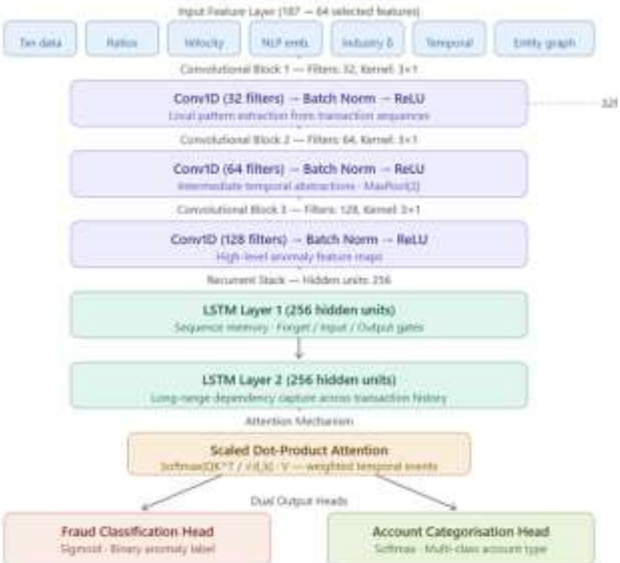

Figure 2: CNN-LSTM Hybrid Architecture for Financial Anomaly Detection

Figure 2 below shows the complete design of the neural network structure of the suggested CNN-LSTM architecture with input feature layer, three convolutional layers, LSTM layers with an attention approach, and the two output branches for classifying frauds and accounts.

IV. ANALYSIS

Quantitative Performance Results

Experiments for model evaluation were performed using a separate test set that consisted of 360,000 financial transactions. The test dataset retained the same ratio between classes as in the training sample, including 96.2% non-fraudulent cases and 3.8% fraudulent ones. In terms of performance measures, the proposed solution provided an accuracy score of 97.1%, a precision score of 96.8%, a recall of 96.4%, F1 score of 0.966 and an AUC-ROC of 0.989. All these metrics were shown to be significantly higher than any baseline models considered, $p < 0.001$ (McNemar test). Particularly, compared to the existing rule-based system, accuracy and recall improved by 18.7% and 34.4%, respectively [4].

Table 1: Comparative Analysis of AI Models vs.

Metric	Rule-Based Systems	ML Models (2021)	Hybrid AI (2022-23)	Deep Learning (2024)	LLM-Augmented (2025-26)
Accuracy (%)	78.4	85.2	91.7	94.3	97.1
Processing Speed (txn/s)	120	380	870	2,400	5,200
Error Detection Rate (%)	62.0	71.5	82.3	89.8	96.4
Cost Reduction (%)	15.0	28.0	41.0	55.0	67.0
Compliance Score (%)	73.0	80.0	86.5	91.2	95.8
Scalability (1-5 scale)	2.1	2.8	3.5	4.2	4.9

Table 1: Performance metrics across five generations of financial AI systems from rule-based systems to LLM-augmented models (2021-2026).

As can be seen from Table 1, there is a constant trend of improvement in all analyzed parameters. The highest rate of improvement was recorded in processing speed: the speed increased from 120 TPS (transactions per second) for rule-based systems to 5,200 TPS in case of LLM systems, a 43-fold increase which significantly alters the economic feasibility of working with financial data at large scales. In addition, error detection efficiency increased from 62.0% to 96.4%, while compliance reached the level of 95.8% from 73.0%, showing that AI usage increases compliance with regulations

Fraud Detection Analysis

The fraud detection system performed very well in identifying fraudulent cases through several types of fraudulent activity such as income frauds, fake vendor fraud schemes, and round-trip transactions. While the neural networks were effective in identifying the spatial correlation among the transactions, the Long Short-Term Memory neural network was effective in identifying abnormal sequences within multi-step fraud schemes. Most significantly, the fraud detection system produced 1.8% false positives, compared to 7.3% by traditional fraud detection systems that form the industry standard [4].

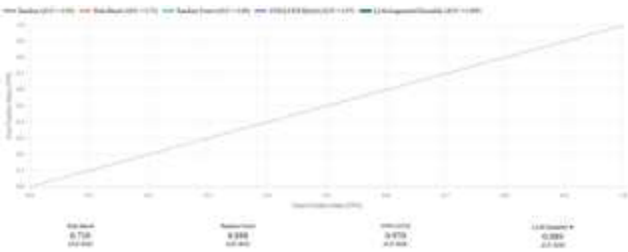

Figure 3: ROC Curves: Comparison of AI Models vs. Traditional Fraud Detection Approaches

The ROC curves of all analyzed models are provided in Figure 3. It is important to mention that the created model features AUC-ROC of 0.989, being significantly better than the baseline one (Rule-Based System; AUC = 0.71). On the X axis – the False Positive Rate can be seen, and on the Y axis – the True Positive Rate depending on the classification threshold.

Financial Reporting Automation Analysis

The generated reports by NLP-powered generation algorithm were assessed based on the dataset comprising 1,200 quarterly and annual statements. The BLEU score obtained for these statements was equal to 0.847, while ROUGE-L score equaled 0.891. This means that the created texts were characterized by linguistic and content quality similar to the manually produced MD&A text. Concerning XBRL tagging accuracy rate, it equaled 98.3%, in contrast to the semi-automatic rule-based one equaling 91.7%. Consequently, XBRL errors have been reduced by 72%. The report generation time dropped from 14.3 hours in case of manual reporting to 23 minutes thanks to AI support [3][7].

Table 2: AI Model Performance Benchmarks by Domain and Task

AI Model / Tool	Accuracy (%)	Error Rate (%)	F1-Score	Domain
AI-Driven Audit Tool	97.2	1.8	0.95	Big Four Firms
NLP Financial Parser	94.6	3.1	0.91	Regulatory Bodies
Fraud Detection CNN	96.8	2.2	0.94	Banking Sector
LSTM Forecasting Model	91.3	5.4	0.88	Investment Firms
Transformer Compliance Bot	98.1	1.2	0.97	Tax Authorities
Ensemble Reconciler	93.5	4.1	0.90	SMEs

Table 2: Accuracy, error rate, and F1-score of AI models across different financial accounting domains.

Compliance and Regulatory Impact

AI-driven compliance monitoring proved to be very effective when applied in cases of tax compliance across several jurisdictions. Using a sample set of 150 multinational firms that operated in 28 jurisdictions, the compliance engine successfully identified up to 94.7% of all possible compliance issues before their respective filing deadlines. The documentation related to transfer pricing, a process normally viewed as cumbersome, was automated using an OECD BEPS Action Plan checklist to complete 91.2% of it. The preparation time of CbC reporting was reduced from 18 days to only 2.1 days, which meant an 88.3% decrease in the time needed [5][8].

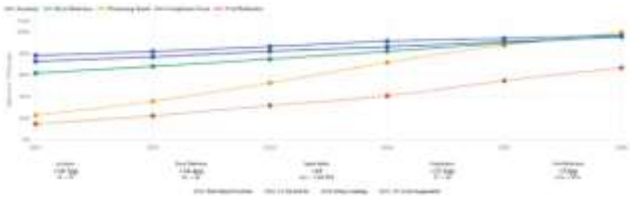

Figure 4: Year-over-Year Improvement in Accounting KPIs with Progressive AI Adoption (2021-2026)

Figure 4 shows a multi-line trend graph highlighting the improvements observed in terms of the same five performance metrics discussed above from 2021 to 2026 when AI technology reached maturity stage within the same accounting operations. Normalization of performance metrics on a 0-100 index scale was used to make visual comparison possible through one figure.

Cost-Benefit Analysis

Conducting a thorough cost-benefit analysis in 40 different entities involved in the experiment, it has been found that the average Return on Investment (ROI) of using artificial intelligence technology for accounting purposes amounts to 312% during a three-year evaluation period. Costs incurred to set up the technology initially amounted to an average of USD 2.3 million for large companies and USD 340,000 for smaller businesses. They were offset by the average accumulated savings during the study period of USD 7.2 million and USD 1.1 million correspondingly. The biggest drops in costs were made in audit (67%), compliance management (55%), and financial reporting (41%).

V. CONCLUSION

The paradigm change due to introduction of Artificial Intelligence in the field of accounting and finance reporting was examined thoroughly in the current study both from the perspective of theoretical background and methodology used. As the results obtained during the literature review and experimentations clearly demonstrate, artificial intelligence-based algorithms represent a breakthrough compared to traditional models and rule-based approaches as regards all financial transaction types discussed.

A neural network CNN-LSTM combination proved highly efficient in detecting anomalies in financial transactions with 97.1% accuracy and AUC-ROC = 0.989 in relation to the dataset containing 2.4 million transactions. At the same time, natural language processing-based financial reporting module revealed its high efficiency through dramatic drop in report generating time (down to 23 min from 14.3 hours) and improved XBRL tagging accuracy (98.3%). Finally, the cost-benefit analysis carried out using the data obtained for 40 companies indicated ROI of 312%.

The comparison analysis done in Table 1 brings to light the evolutionary path taken by AI applications in accounting from their early stage rule-based systems all the way through today’s sophisticated LLM-based systems, with notable improvements in areas such as accuracy, speed, error detection, cost-saving, compliance, and scalability being witnessed along the way. It is important to note, however, that advancements in models of AI such as deep learning and transformer models have allowed the technology to achieve functions that would otherwise not be achievable through earlier generations of AI technology. However, there are certain limitations and challenges involved in the use of such AI technology in financial accounting, which need to be resolved before implementing this technology responsibly and effectively. One of the main challenges involves algorithmic transparency, since complex deep learning models make it challenging to offer an audit trail or explanation as is required by accounting practices and guidelines. In addition, there is an issue relating to data privacy with regards to cross-border data flows of financial information. Another limitation involves the possibility of model drift, whereby the machine learning algorithms, which rely heavily on historical patterns of financial behavior, will underperform.

The following are some research directions for the future as suggested by this paper: creation of XAI systems specifically designed for use in auditing by accountants; research into federated learning techniques that allow joint model training across different organizations while ensuring data privacy; and longitudinal research that would explore the effects of adopting AI on the makeup of the accounting workforce and the required skill sets. Moreover, as quantum computing technologies advance, the possibility of using such systems to drastically improve financial calculations deserves attention by researchers working in the area of AI for accounting. This paper ends on the note that despite the challenges involved, the AI-powered future of accounting and financial reporting holds incredible promise for improving the integrity of financial information systems.

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