



# Deciphering Financial Documents

A Classification Journey

# DECIPHERING FINANCIAL DOCUMENTS: A CLASSIFICATION JOURNEY

## INTRODUCTION

This report outlines the approach, model selection, and results of a machine learning project aimed at classifying tables from financial statements into five categories: Income Statements, Balance Sheets, Cash Flows, Notes, and Others.

## APPROACH

### 1. Data Extraction and Preprocessing:

- HTML files containing tabular data were processed to extract relevant information.
- Initial preprocessing steps included cleaning the extracted text to remove unnecessary characters and formatting.

### 2. Feature Engineering:

- **Text Vectorization:** Text data underwent vectorization using TF-IDF (Term Frequency-Inverse Document Frequency) representation.
- **Label Encoding:** Label encoding converted document labels into numerical format for model training.
- **Word Count:** A feature representing the total number of words in the document was added.
- **Word Cloud:** A visual representation of the most common words in the documents was created to understand the prevalent terms.

### 3. Model Selection and Training:

- Various classification models were evaluated using the LazyClassifier library to identify the most suitable model.
- The Support Vector Classifier (SVC) exhibited the best performance based on accuracy and generalization to new data.

### 4. Model Evaluation:

- The trained SVC model was evaluated using standard performance metrics such as accuracy, precision, recall, and F1-score.
- Additionally, the ROC AUC score was calculated to assess the model's ability to distinguish between classes.

## MODEL SELECTION

We opted for the **Support Vector Classifier (SVC)** due to its superior performance, particularly in accuracy and generalization. While models like **LGBMClassifier** and **ExtraTreesClassifier** showed higher training accuracies, their test accuracies were slightly lower. For instance, **LGBMClassifier** achieved **99.39%** training accuracy but only **92.05%** test accuracy, while **ExtraTreesClassifier** had **99.39%** training accuracy and **92.72%** test accuracy. Conversely, **SVC** had a slightly lower training accuracy at **96.85%** but maintained comparable test accuracy at **92.05%**.

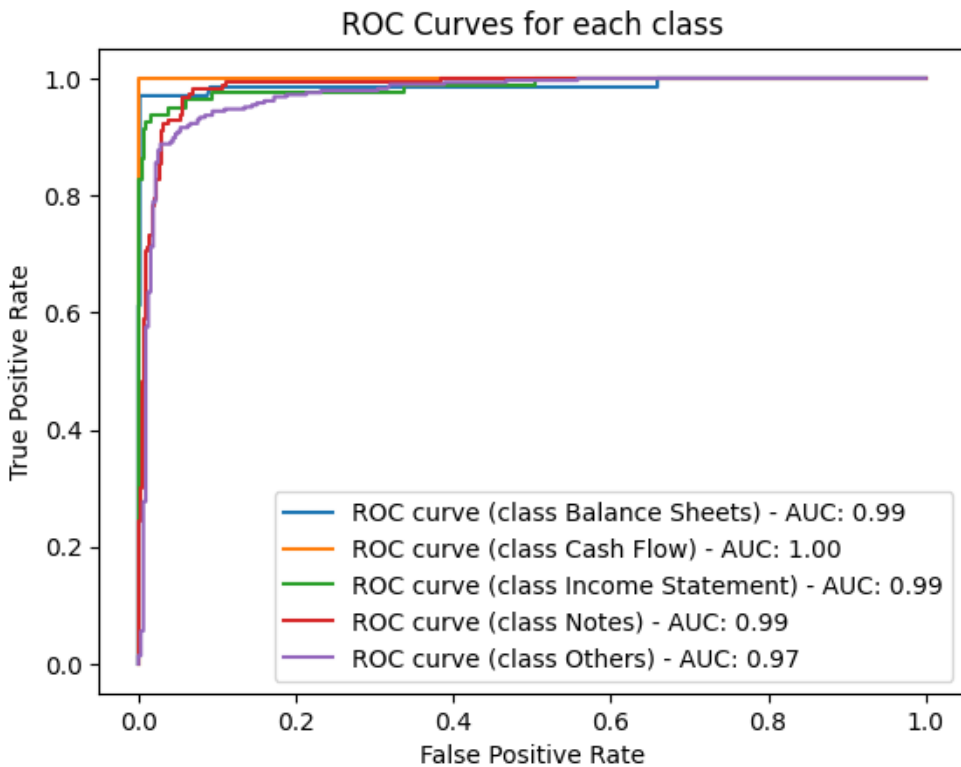
What distinguished SVC was its ability to generalize well to unseen data, evident in the narrow margin between its training and test accuracies. With a training accuracy of **96.85%** and test accuracy of **92.05%**, SVC showed **minimal risk of overfitting** and **superior generalization** compared to other models. Hence, owing to its balanced performance metrics and lower risk of overfitting, SVC emerged as the optimal choice for financial document classification.

## RESULTS

1. **Accuracy:** The SVC model achieved an overall accuracy of **92.05%** on the test set, indicating precise classification of 92.05% of test samples.
2. **Precision, Recall, and F1-Score:** The average precision, recall, and F1-score were **93.41%**, **93.78%**, and **93.56%**, respectively, demonstrating strong classification capabilities across all document types
3. **Classification Report (in %):**

Metric	Balance Sheets	Cash Flow	Income Statement	Notes	Others
Precision	98.48	93.75	93.67	90.07	91.10
Recall	97.01	100.00	91.36	87.18	93.33
F1-Score	97.74	96.77	92.50	88.60	92.20

4. **ROC AUC Score:** The ROC AUC score of **98.7%** indicated excellent ability to distinguish between different document types.

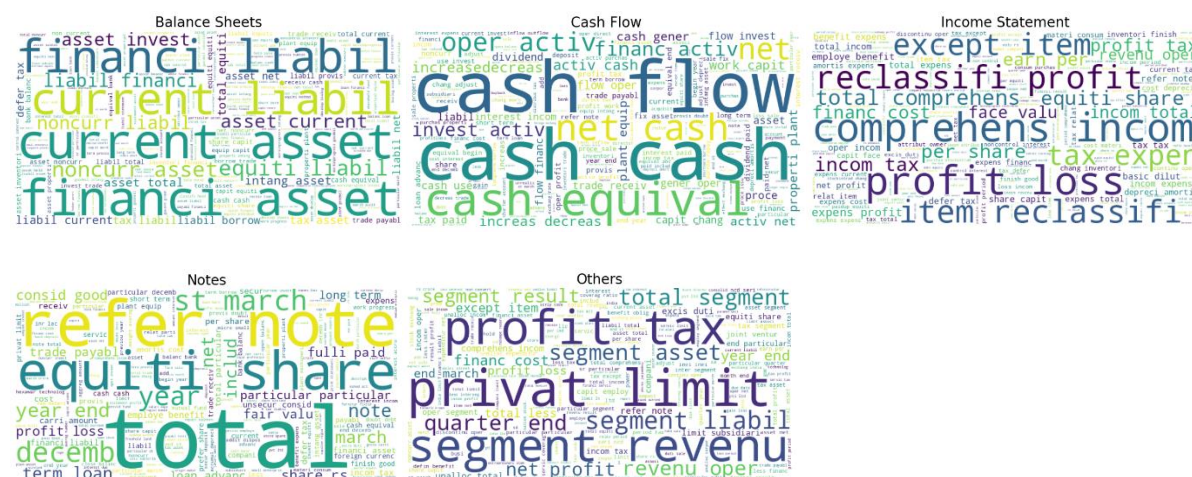


- a. The model's exceptional ability to differentiate between different document types is evidenced by the ROC AUC scores for each class: Balance Sheets (**99%**), Cash Flow (**100%**), Income Statement (**99%**), Notes (**99%**), and Others (**97%**).
- b. These scores highlight particularly high performance in classifying Cash Flow documents.
- c. Additionally, the consistently high ROC AUC scores across all classes indicate robust discrimination capabilities, ensuring accurate classification across diverse financial document types.

## CONCLUSION

The Support Vector Classifier (SVC) model achieved accurate classification of financial statement tables into their respective categories. With a balanced trade-off between accuracy, precision, recall, and generalization, the SVC model proves to be effective and reliable for this classification task. Future enhancements could involve fine-tuning the model parameters or exploring ensemble techniques to further improve performance.

## WORD CLOUD:



## KEY WORDS IN FINANCIAL REPORTS

**Balance Sheets:** Current Asset, Current Liability, Financial Liability, Financial Asset, Noncurrent Asset, Equity Liabil, Liabilities Financial, Liabil Current, Total Equity

**Cash Flow:** Cash Flow, Net Cash, Cash Equival, Inceas Decreas, Work Capital, Cash Use, Active Cash, Dividend

**Income Statement:** Profit Loss, Comprehensive Income, Item Reclassifi, Exceptional Item, Tax Expense, Reclassified Profit, Total Comprehensive, Tax, Equity Share

**Notes:** Refer Note, Equity Share, Term Loan, Consid Good, Total, Net, Year End

**Others:** Total Segment, Segment Revenue, Private Limited, Profit Tax, Company, Segment Liabil, Segment Asset

## SUMMARY

These key words from balance sheets, cash flow statements, income statements, notes, and other segments are crucial for interpreting a company's financial health. Understanding these terms helps stakeholders navigate financial documents and make informed decisions.

This project demonstrates a robust approach to classifying financial statement documents, utilizing advanced feature engineering and machine learning techniques to achieve high accuracy and reliability in predictions.