Module 8 Part 1

Cash Flow Analysis: Deconstructing Cash Flow

A deep-dive walkthrough of the Statement of Cash Flows under **IFRS 18**, using **Jollibee Foods Corporation** as our real-world case study — where accounting opinions end and liquid facts begin.

C-AE24 STRATEGIC BUSINESS ANALYSIS

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The New Regulatory Landscape: IFRS 18

Why the Change?

Global investors demanded less noise from legacy accrual accounting. IFRS 18 makes financial statements more **comparable, structured, and transparent**.

Key Mandate

Companies must define an absolute **"Operating Profit" subtotal** and align cash flows accordingly — no more hiding financing costs inside the operating section.

Learning Outcomes

1	2
Precision in Classification Sort every JFC transaction into its one correct bucket: **Operating, Investing, or Financing**. Under IFRS 18, flexible placement is gone.	**Indirect Method Mastery** Build the cash flow statement by reconciling **Operating Profit to actual bank balances** — stripping away non-cash illusions of accrual accounting.

The Three Structural Pillars

🍗 Operating

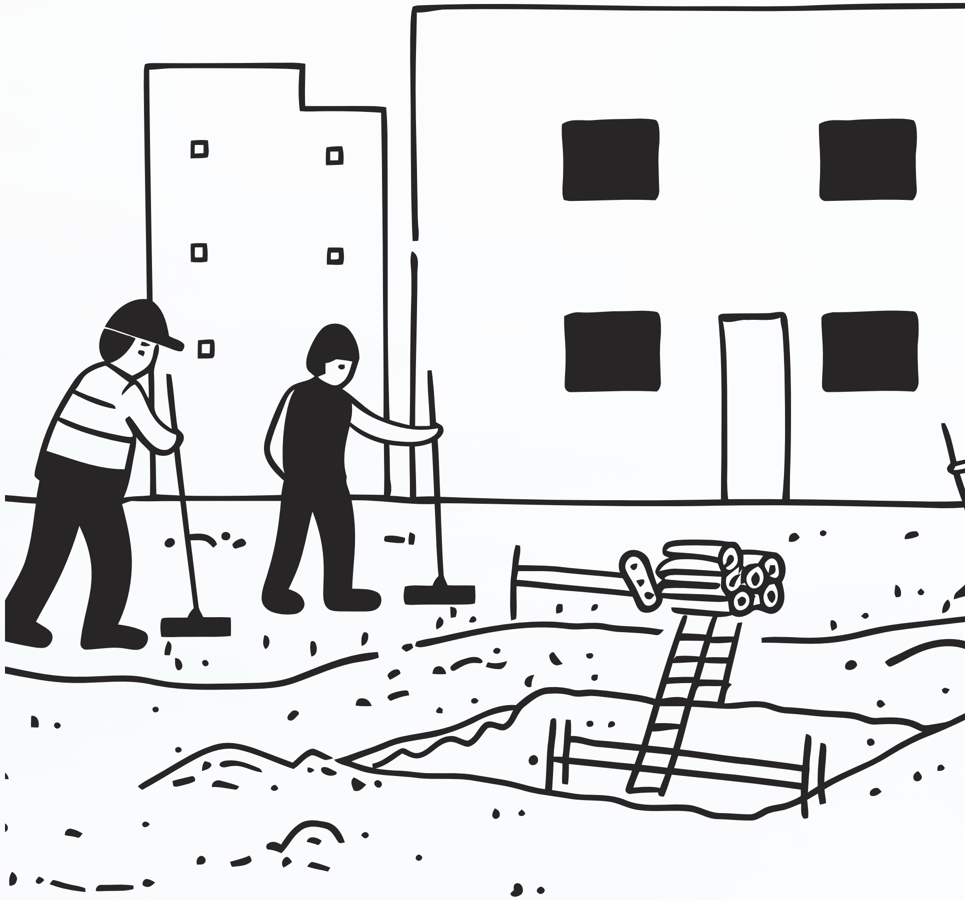
The heartbeat — cash from daily restaurant and franchise operations

🏗️ Investing

The growth engine — capital deployed into long-term assets and acquisitions

⛽ Financing

The fuel tank — how JFC raises and repays long-term capital



Pillar 1: Operating Activities

The true daily heartbeat of Jollibee — liquid assets generated strictly from primary, revenue-producing activities across 6,000+ stores.

Inflows

- Cash collected from customers
- Upfront franchise fees
- Global brand royalties

Outflows

- Vendor payments (chicken, ingredients)
- Restaurant crew payroll
- Utility bills for kitchens

⚠ If this section is consistently negative, the core business model is fundamentally failing — no amount of loans can fix it.

Pillar 2: Investing Activities

Jollibee's strategic global growth engine. A deeply negative section here is expected — it proves leadership is aggressively expanding the asset footprint.

Capital Expenditures

New flagship stores (Times Square, London), kitchen equipment, construction contracts

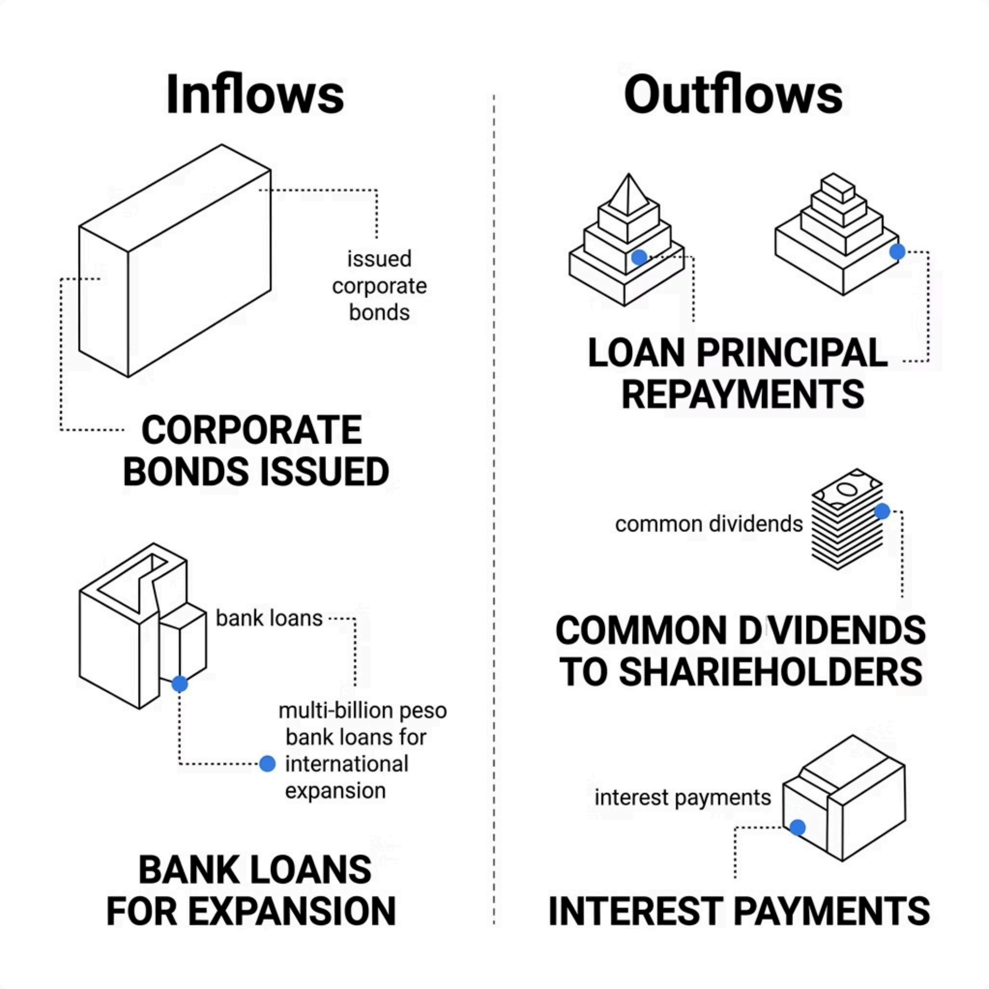
Acquisitions

Coffee Bean & Tea Leaf buyout, Compose Coffee investment — recorded here

Investment Returns

Interest or dividends received from joint ventures

Pillar 3: Financing Activities



The IFRS 18 Impact

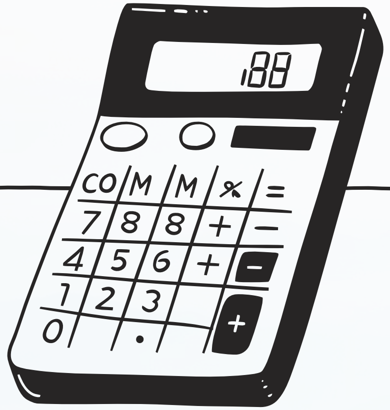
Interest payments and dividend distributions — previously flexible — are now **strictly locked** into this pillar, creating a centralized view of capital servicing.

This allows analysts to evaluate whether Jollibee relies too heavily on debt or is genuinely returning value to owners.

The IFRS 18 Pivot: The New Anchor

Old Anchor

Net Income distorted by interest and taxes



New Anchor

Operating Profit as pure store efficiency baseline

Starting from Operating Profit, eliminates distortions from interest and taxes, enabling a clean cash conversion ratio — showing exactly how much of JFC's operating profit became liquid cash.

Net Income vs. Operating Profit

Net Income — Noisy

- Inflated by one-time tax credits
- Deflated by floating interest rate surges
- Forces untangling non-operating variables

Operating Profit — Stable

- Pure commercial execution of the enterprise
- Isolates the core restaurant engine
- Mandates structural consistency under IFRS 18

The core question: **"Before banks and government — how much liquid cash did our storefronts actually produce?"**

The Indirect Method: The Art of Neutralization

Accrual accounting is full of **paper entries** — transactions on the Income Statement that never moved real cash. The Indirect Method systematically reverses them:

Non-Cash Expense?

It lowered profit — **Add it back**

Non-Cash Gain?

It inflated profit — **Subtract it**

Adjustment 1: Depreciation

The Invisible Expense

JFC buys a ₱500,000 fryer. Accrual rules spread the cost over 10 years — recording ₱50,000 depreciation expense annually, lowering Operating Profit.

But **no check was written this year.** The cash left years ago.

→ Add depreciation back to Operating Profit. In 2024–2025, JFC's massive store count made this the largest single adjustment.

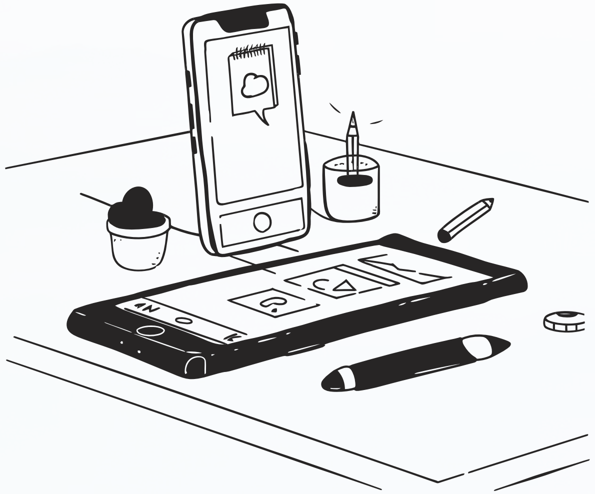
Adjustment 2: Amortization

Digital Infrastructure

Intangible assets — POS software licenses, mobile delivery apps, acquired international trademarks — are amortized over time, reducing Operating Profit.

Like depreciation, **no cash was paid this year** for this year's amortization slice.

→ **Add amortization back** to the Operating Profit baseline. As JFC pushes into digital commerce and smart kitchens, this adjustment grows in significance.



Working Capital: The Cash Trap

Working capital — inventory, trade receivables, and trade payables — is a delicate balancing act. Think of it as a **corporate Cash Trap**:

Working Capital ↑

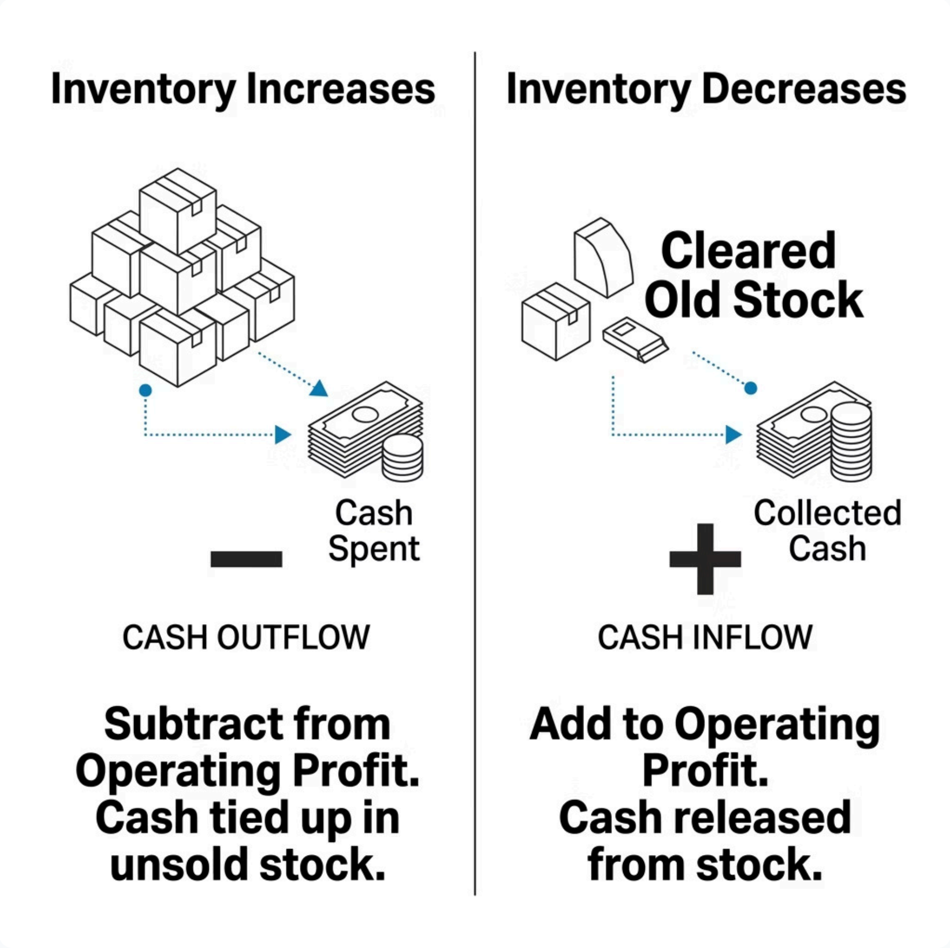
Cash is **locked** inside operational gears — unavailable in the bank

Working Capital ↓

Cash is **released** from the trap into liquid reserves

For JFC's massive global supply chain, a tiny shift in working capital efficiency can trap or release **billions of pesos**.

Adjustment 3: Inventory



Poultry, Beef & Sauces

JFC's inventory = raw supplies across global distribution hubs. In 2025, scaling by **1,000+ stores** caused inventory demands to skyrocket.

Holding excess stock triggers a massive, silent cash squeeze — executives had to be flawless.

Adjustment 4: Trade Receivables

Revenue **recognized** but not yet **collected** — primarily franchise royalties and supply chain distributions owed by independent partners.

Receivables ↑

More partners owe JFC money → **Cash Outflow** → Subtract

Receivables ↓

JFC is collecting efficiently from its network → **Cash Inflow** → Add

In 2024, Jollibee's focus on operational discipline directly optimized this line — transforming book metrics into raw liquid bank assets.

Adjustment 5: Trade Payables

Short-term debt owed to suppliers for ingredients, packaging, and logistics. **Giant firms use payables as free short-term liquidity.**

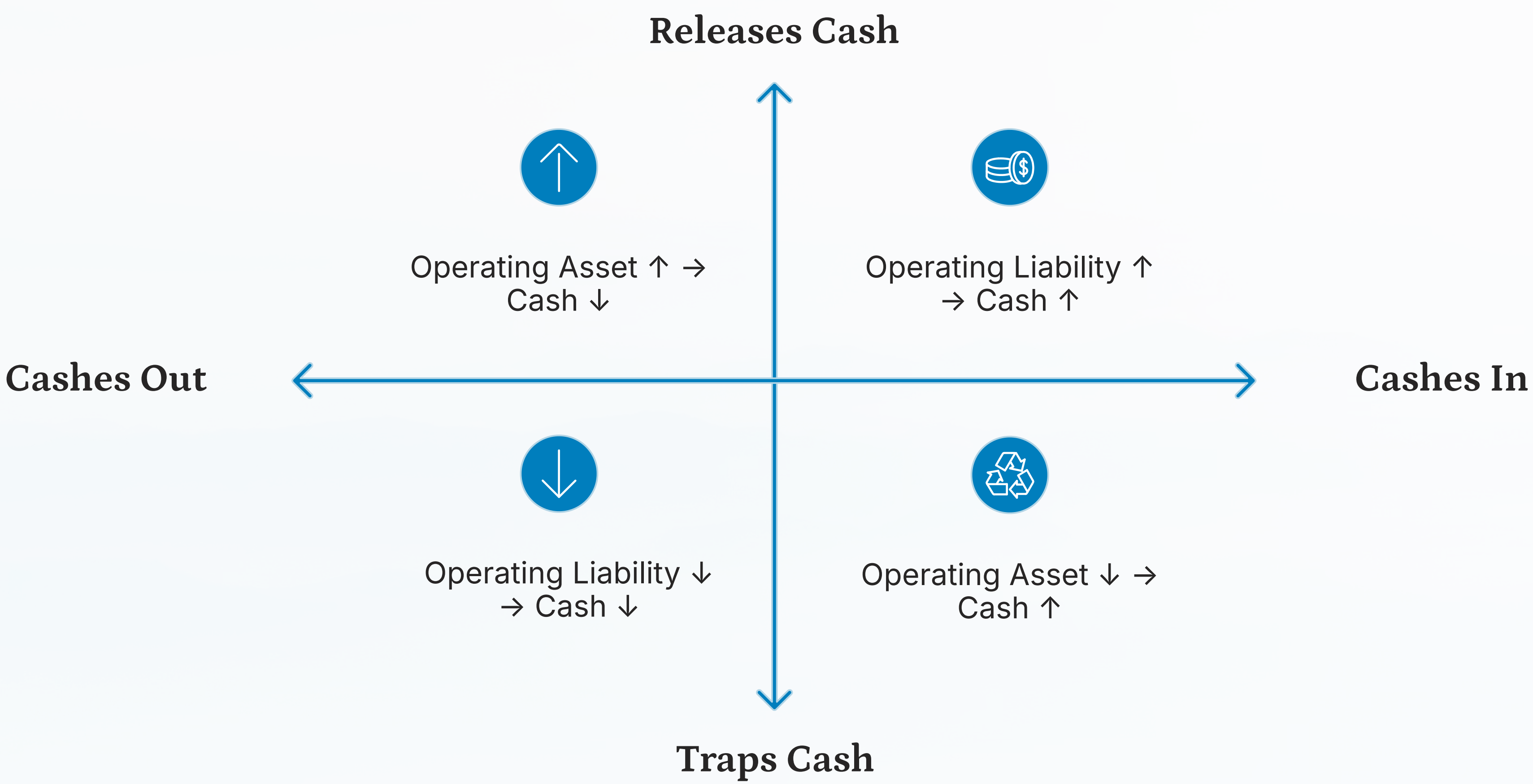
Payables ↑

JFC holds cash longer by leveraging supplier terms → **Cash Inflow** → Add back

Payables ↓

Clearing vendor bills faster than taking on new ones → **Cash Outflow** → Subtract

Working Capital Logic: The Master Rule



Always ask: "Did this balance sheet variance trap cash or release it?" Answer that clearly, and you have mastered the Indirect Method.

Interest Paid: No More Policy Choices

Legacy IAS 7

Companies could classify Interest Paid in **either** Operating or Financing — many chose Operating to blend it with daily expenses.

IFRS 18 Mandate

Interest Paid is now **strictly locked into Financing Activities** — keeping Operating entirely pure, making JFC's debt obligations fully visible to global investors.

This allows analysts to see exactly how much cash the store network generated *before* accounting for the cost of debt used to build it.

Dividends Paid: Returns to Owners

Locked in Financing Activities

In 2025, JFC's Board authorized a dividend of **₱1.33 per share** — a direct return to equity capital providers, belonging exclusively in the Financing pillar.

Grouping Dividends Paid + Interest Paid gives a **comprehensive view of total cost of capital** — revealing whether corporate growth is genuinely self-sustaining.

Interest & Dividends Received: Asset Returns

When JFC deploys excess cash into bank deposits, securities, or equity stakes, the resulting returns are classified under **Investing Activities**.

> Logical symmetry: if you spent cash to buy an investment (Investing Outflow), any cash reward from that asset is an Investing Inflow.

This prevents investment returns from **artificially inflating restaurant-level performance** — ensuring core store success is evaluated entirely on its own merits, separate from treasury plays or macroeconomic interest rate shifts.

Income Tax Paid: Mandatory Disclosure

The Old Problem

Companies lumped tax payments with miscellaneous operating expenses, obscuring the data. The accounting "Tax Expense" often varies wildly from the actual check written to regulators.

IFRS 18 Solution

Actual cash paid for income taxes must be a **separate, visible line item** in Operating Activities — instantly revealing if JFC's global expansion is creating an unexpected cash drag.

Eliminating "Window Dressing"

Window dressing — exploiting accounting choices to cosmetically style financial metrics — is the ultimate target of IFRS 18's structural updates.

Historic Loophole

Shifting interest payments into operations could downplay financing burdens and distort cash conversion metrics.

IFRS 18 Seal

Every transaction has one unmovable home — stripping management's ability to style results and building trust with global institutional investors.

Case Insight: Jollibee's 2024 "Profit Breakthrough"

JFC's consolidated Net Income surpassed the historic **₱10 billion threshold**. But did book profits translate into liquid cash?

Working Capital Discipline

Minimized kitchen inventory waste across the global supply chain

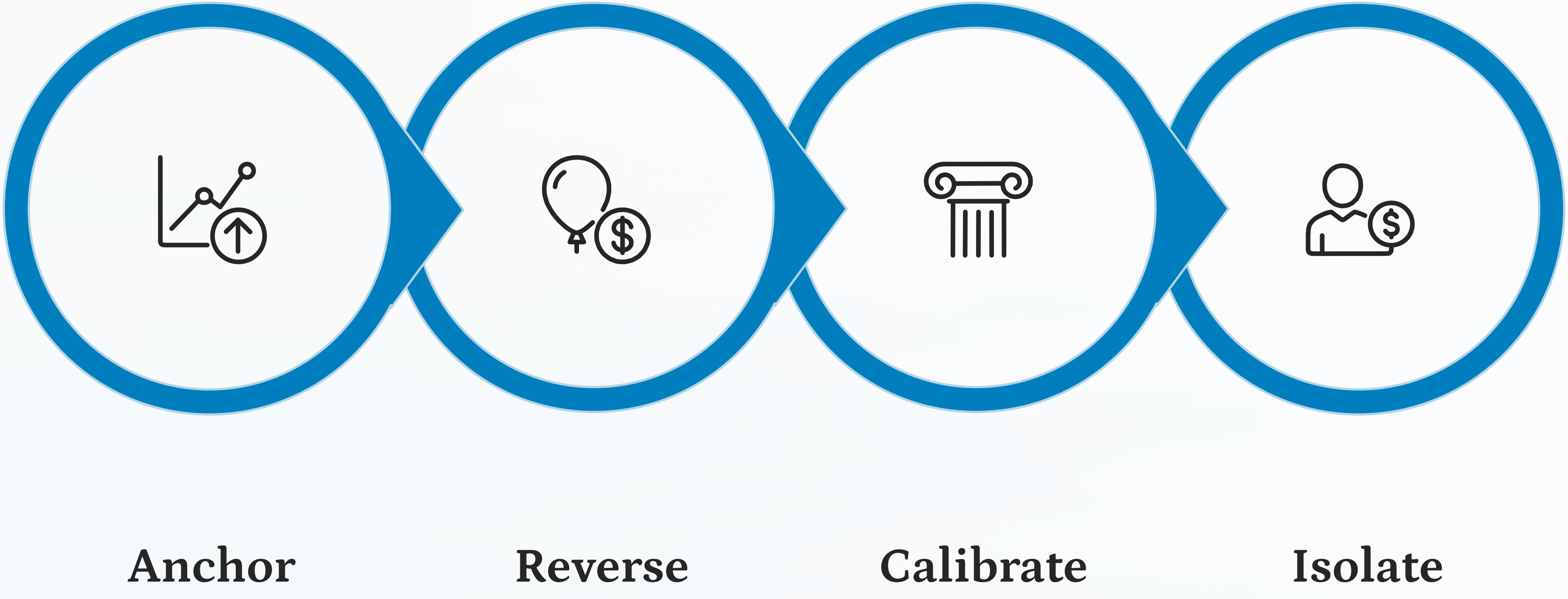
Accelerated Collections

Optimized franchise receivable cycles from global store networks

Authentic & Liquid

Indirect method confirms profits were real — building reserves to fund 2025 hyper-expansion

Part 1 Summary: The Clean Audit Trail



For Jollibee, this mechanical process reduces a massive global operation into a few rows of **undeniable, verifiable proof** — a clean, logical, and uncompromised audit trail mandated by IFRS 18.

Bridge to Part 2: From Math to Strategy

You have mastered the technical recipe. Now it is time to **taste and evaluate the finished meal.**

Part 1 — Mechanics

Accounting math, structural pillars, regulatory mandates

Part 2 — Strategy

Free Cash Flow analysis: Can JFC safely afford 1,100+ new locations in 2025?

> The math is your tool — but the strategy is your real corporate power.