

Case 92-2 (Revised)

**Cash Flow Reporting of ESOP Loan Repayments**

JBS Corp. is a manufacturer of plumbing supplies and a subsidiary of United Boilermakers, Inc. (United). The JBS Employee Stock Ownership Plan (ESOP) acquired the common stock of JBS Corp. from United Boilermakers for \$420 million. The ESOP financed the purchase of the common stock with a 15-year loan from JBS (the ESOP loan), which was collateralized by the JBS common stock held by the ESOP. JBS borrowed the \$420 million from an outside lender and repaid it within four years.

The ESOP loan is being repaid by the ESOP to JBS from contributions made by JBS to the ESOP for the benefit of its eligible employees. The shares of common stock acquired by the ESOP will be allocated to the individual employees' accounts as the loan is repaid.

The ESOP expense for a year is equal to the annual contributions. Accordingly, JBS charges contributions to the ESOP as an expense in its statement of operations and includes them in operating activities in its statement of cash flows. ESOP loan repayments have been reported as a financing activity. However, now that JBS has repaid the \$420 million it had borrowed in order to fund the ESOP loan, JBS management believes that the ESOP's repayment of the loan to JBS should be presented as cash flow from operating activities rather than from financing activities in its statement of cash flows.

**Required:**

- Should JBS report the ESOP loan repayments as cash flows from operating activities or financing activities in its statement of cash flows?