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Letter of Comment No: 19  
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Director, TA&I-FSP  
Financial Accounting Standards Board  
401 Merritt 7  
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The Home Depot would appreciate your consideration of the following comments on the proposed FASB Staff Position No. FAS 13-b issued July 19, 2005, *Accounting for Rental Costs during a Construction Period*. We believe that current generally accepted accounting principles support the capitalization of rent incurred during an asset's construction period. Paragraph 6 of FASB Statement No. 34, *Capitalization of Interest Costs*, states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.

In several circumstances, companies are required to capitalize costs while readying an asset for its intended use. This allows the cost of the asset to be depreciated over a number of years, and thus match the expenses for the facility to the revenues produced by the facility. In addition to the capitalization of interest noted above, FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, requires the capitalization of property taxes and insurance costs while the asset is readied for its intended use. FASB Statement No. 67 also requires capitalization of other project costs clearly associated with the acquisition, development, and construction of a real estate project.

A requirement to expense rent during the construction period would create an inconsistency in the financial statements between construction of an owned asset and a leased asset. During the construction period of an owned asset, depreciation is deferred until the asset is placed in service. Capitalization of rent during the construction of a leased asset creates comparability with the deferral of depreciation expense during construction of an owned asset.

The basis for the Board's conclusion that rental cost should be expensed during the construction period is based on the idea that rental costs represent the right to control the use of a leased asset, and that there is no distinction between the right to use a leased asset during the construction period and after the construction period. However, there is



also no distinction between the interest cost incurred to finance an asset during the construction period and after the construction period or between property taxes and insurance costs incurred during the construction period and after the construction period. We therefore believe that rental costs should be capitalized during construction for consistency with existing generally accepted accounting principles.

We strongly urge you not to pass FASB Staff Position No. FAS 13-b. However, if passed, we recommend postponing the effective date and transition to the first annual period beginning after December 15, 2005. The additional time would allow companies to measure the impact of the new guidance and better inform the public on the new earnings expectations. In addition, changing accounting methods mid-year after earnings guidance has been issued would provide more confusion than benefit to the investing public.

The Home Depot appreciates the opportunity to express our opinion on this matter. We would be pleased to discuss our comments in greater detail.

Sincerely,



Kelly H. Barrett  
Vice President  
Corporate Controller