



On 1 November 2012 Crespo signed a 10-year lease to acquire a leasehold warehouse for \$30 million.

Included in the price is the cost of a modification to create a storage facility for toxic waste products. The lease stipulates that the warehouse must be restored to its original condition at the end of the lease or on earlier termination.

It is estimated that the cost of restoration will be \$20 million. Due to the warehouse's unique properties, the directors have estimated that the lease has a recoverable amount of \$28 million at 31 October 2013.

The only entry in Crespo's books, apart from the original cost, is the recognition of depreciation for the year of \$3 million.

Crespo uses a discount rate of 10% for any relevant calculations.

Note: discount factor 10% (n=10 years): 0.386

[7 marks]

Required

Advise Crespo on how to account for the above transaction in the entity's financial statements for the year ended 31 October 2013.