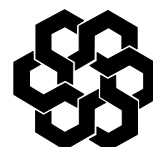




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*This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).*

*These notes are based on the staff papers prepared for the IASB and FASB. Paragraph numbers correspond to paragraph numbers used in the joint IASB-FASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### INFORMATION FOR OBSERVERS

**IASB/FASB Meeting:** 22 October 2007, Norwalk

**Project:** Revenue Recognition

**Subject:** Summary of the Key Features of the Measurement and Allocation Models (Agenda paper 5D)

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### INTRODUCTION

1. The following table presents the key features of the Measurement and Allocation models. Although the staff is not requesting comparisons of the two models in the October joint meeting, it thinks a tabular summary of the models' key features will help the Boards to understand the basics of the two models.
2. The key features are presented in relation to the accounting at the inception of a contract and the accounting after contract inception.

*Summary of the Key Features of the Measurement and Allocation Models*

	<b>Measurement Model</b>	<b>Allocation Model</b>
<i>What is revenue?</i>	An <i>increase</i> in a contract asset or a <i>decrease</i> in a contract liability that results from (a) obtaining an enforceable contract with a customer to provide goods and services and (b) providing those goods and services to the customer.	An <i>increase</i> in a contract asset or a <i>decrease</i> in a contract liability that results from an entity satisfying its performance obligations.
<b>Contract Inception</b>		
<i>Measurement of contract at inception</i>	Measure the remaining rights and obligations in the contract at their current exit price.	Measure the rights in the contract at the amount of consideration received or receivable. The amount of consideration received or receivable is then allocated to the identified performance obligations based on the separate selling price of the underlying good or service.
<i>Identifying the separate performance obligations</i>	<p>At any reporting date, the entity measures <i>all</i> of the remaining unperformed obligations in the contract.</p> <p>All obligations to a customer arising from the contract are included in the measurement of the contract (including obligations such as warranties and return rights).</p>	<p>The identified performance obligations are restricted to the obligations agreed upon by the entity and its customer in the contract.</p> <p>‘Ancillary obligations’ may arise directly from the contract (such as statutorily-imposed warranty obligations), but these are not considered performance obligations. No consideration is allocated to these obligations.</p>
<i>Can some <u>revenue</u> arise at contract inception?</i>	Yes (if current exit price of rights obtained > current exit price of obligations incurred).	No
<i>Can some <u>profit</u> arise at contract inception?</i>	Yes (if current exit price of rights obtained less current exit price of obligations incurred > contract	No

*Summary of the Key Features of the Measurement and Allocation Models*

	<b>Measurement Model</b>	<b>Allocation Model</b>
	acquisition expenses).	
<i>Can some <u>loss</u> arise at contract inception?</i>	Yes (if the contract acquisition expenses > current exit price of rights obtained less current exit price of obligations incurred; or if current exit price of obligations incurred > current exit price of rights obtained).	Yes (for all the contract acquisition expenses. An additional loss will also arise if the contract is judged to be onerous.)
<b>After Contract Inception</b>		
<i>Measurement of contract after inception</i>	Measure remaining rights and obligations in the contract at their current exit price.	Measure remaining rights at the amount of remaining consideration receivable.  Measure remaining obligations at the amount of consideration that was allocated to those obligations at contract inception unless those obligations are judged to be onerous. If onerous, recognise an additional liability.
<i>If there is a change in price for goods and services still to be provided, does the carrying amount of the performance obligations change?</i>	Yes (if there is a change in the current exit price of the goods and services to be provided).	No (unless the contract is determined to be onerous).
<i>When is revenue recognised?</i>	As obligations are satisfied (i.e. as goods and services transfer to customer).	As performance obligations are satisfied (i.e. as goods and services transfer to customer).
<i>How is the amount of revenue determined</i>	By reference to the current exit price of the obligations that have been satisfied—i.e. current price of goods and services provided in period.	By reference to the contract consideration that was initially allocated to the obligations that have been satisfied—i.e. amount of contract consideration attributed to goods and services provided in the period.

*Summary of the Key Features of the Measurement and Allocation Models*