



# Pharmaceuticals

IFRS 15 Revenue – Are you good to go?

May 2017

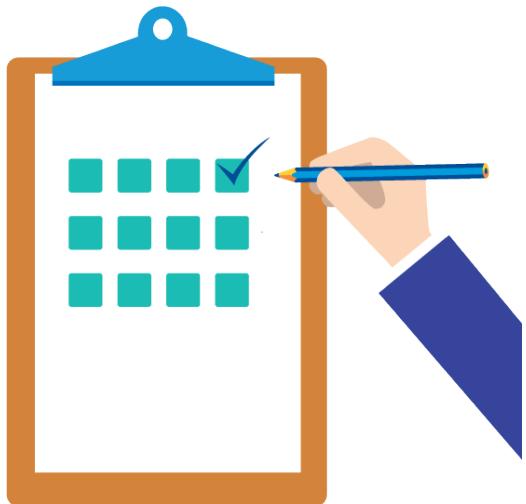
[kpmg.com/ifrs](http://kpmg.com/ifrs)



# Are you good to go?

IFRS 15 will change the way many pharma companies account for sales contracts.

To help you drive your implementation project to the finish line, we've pulled together a list of key considerations that many pharma companies need to focus on.



**For each of the following,  
documenting your analysis  
and the conclusions drawn  
will be essential**



# Performance obligations

**Do your agreements include elements that meet  
the new 'distinct' test to be accounted for separately?**



Capable of being distinct

+

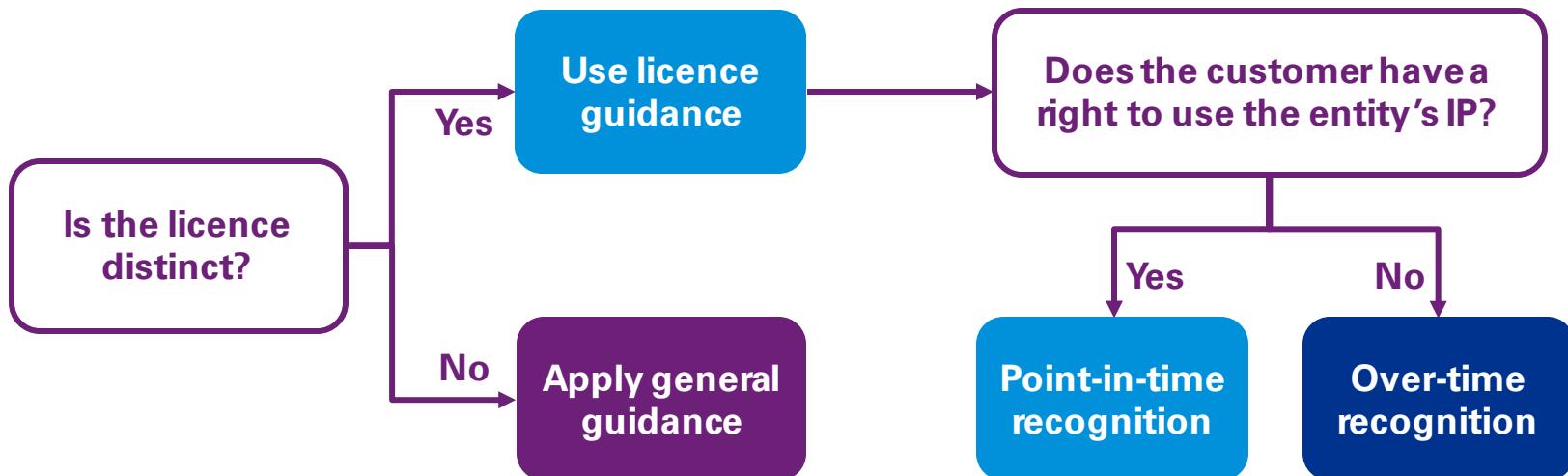
Distinct in the context of  
the contract

Think about...

**Licence for compound combined with R&D and manufacturing services**

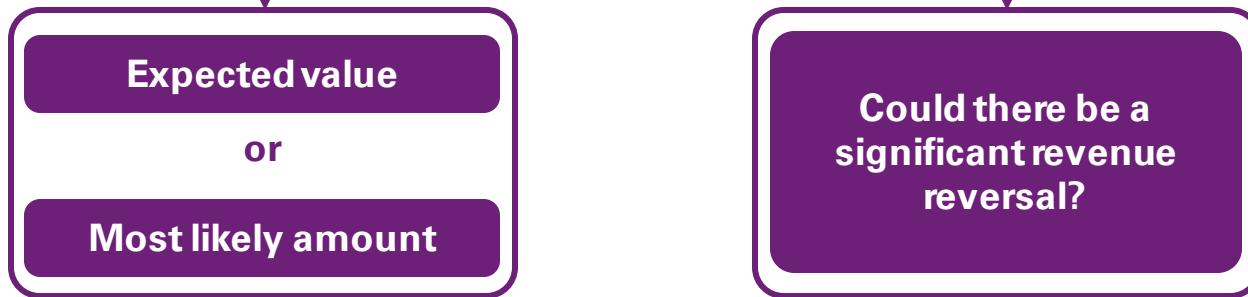
# Licences of intellectual property

**Have you determined how to account for your licensing arrangements?**



# Variable consideration

For variable payments, have you decided on the **estimation method** and applied the **constraint**?

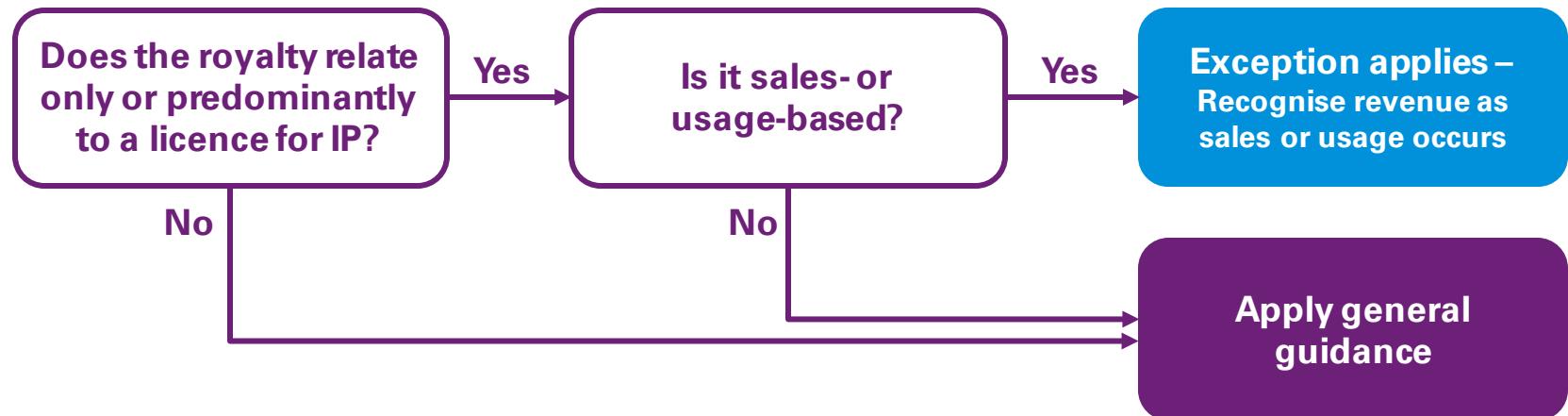


Think about...

Milestone payments | Volume discounts | Bonuses | Rights of return

# Royalty arrangements

**Do your royalty arrangements qualify for the royalty exception?**

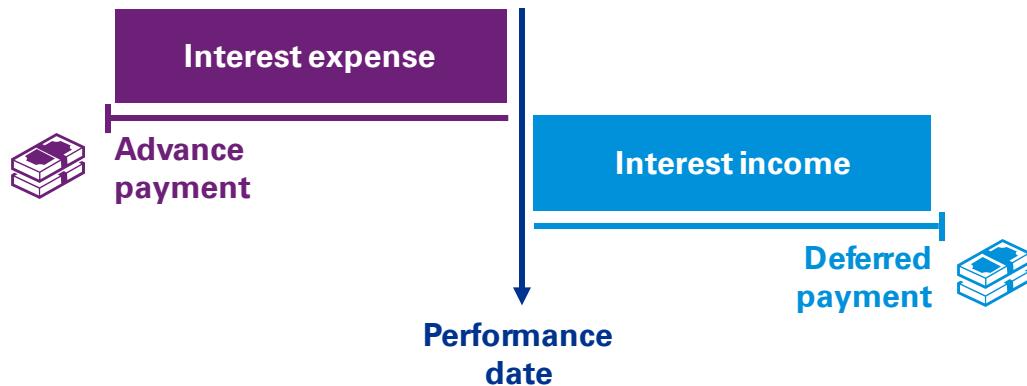


**Think about ...**

**Tiered royalties | Royalty with a guaranteed minimum**

# Significant financing components

**Do deferred or advance payment terms in your contracts give rise to a significant financing component?**



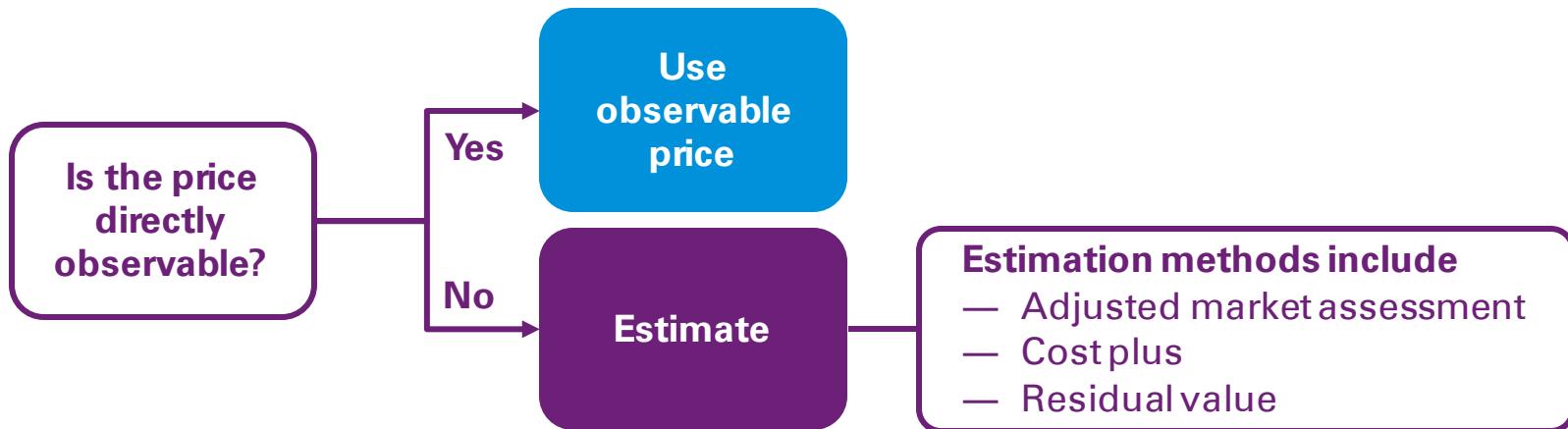
**Practical expedient – No need to recognise if period between payment and performance is < 1 year**



**Does not apply if consideration is entirely variable – e.g. royalty arrangements**

# Allocating the transaction price

**How will you determine the stand-alone selling prices of your performance obligations and allocate the transaction price?**



**Think about ...**

**Allocation of upfront fees | Performance obligations with variable pricing**

# Timing of revenue recognition

**Will there be any changes to the timing of your revenue recognition?**

**Revenue is recognised...**

**At the point in time  
when the customer  
obtains control**

**or**

**Over time if specific  
criteria are met**

**Think about...**

**Licences | Milestones | R&D services | Contract manufacturing | Distribution**

# Collaborative arrangements

**Under your agreements, do you share with the customer the risks and rewards of participating in an activity or process?**



Then...

**Part or all of the agreement may be outside the scope of IFRS 15**



**Reimbursements might be recorded as a reduction of R&D expense or as other income**

**Think about...**

**Arrangements that include R&D activities or product development**

# Transition adjustments

**Have you identified all of the areas where differences exist between IFRS 15 and your existing accounting?**



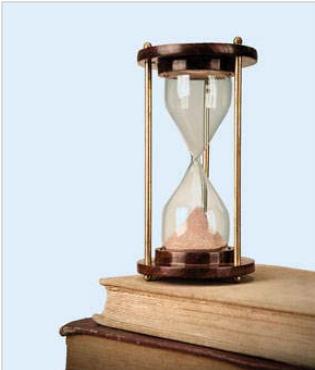
**Use the helpful guidance in our *Transition Options* and *Issues In-Depth* publications**



**IFRS 15 is more detailed than the existing revenue requirements, so you may find unexpected changes in your accounting**

# Disclosure requirements

**Have you identified the additional information and processes needed to meet the disclosure requirements?**



**Read our *Guide to annual financial statements – IFRS 15 supplement***



**Under IFRS 15, you'll need to provide more detailed information about contract terms, as well as how and when you recognise revenue**

# Checklist of actions

Have you...?	<input checked="" type="checkbox"/>	Have you...?	<input checked="" type="checkbox"/>
Determined whether your contracts include <b>more than one performance obligation?</b>	<input type="checkbox"/>	Determined the stand-alone selling prices of your performance obligations and <b>allocated the transaction price?</b>	<input type="checkbox"/>
Determined how to account for your <b>licensing arrangements?</b>	<input type="checkbox"/>	Assessed whether the <b>timing of your revenue recognition</b> will change?	<input type="checkbox"/>
Revised your estimates of <b>variable consideration</b> elements – e.g. milestone payments and volume discounts?	<input type="checkbox"/>	Determined whether part or all of any of your agreements are <b>collaborative arrangements?</b>	<input type="checkbox"/>
Assessed whether your <b>royalty arrangements</b> qualify for the royalty exception?	<input type="checkbox"/>	Identified and quantified your <b>transition adjustments?</b>	<input type="checkbox"/>
Identified and calculated any <b>significant financing components?</b>	<input type="checkbox"/>	Identified the additional information needed to meet the <b>disclosure requirements?</b>	<input type="checkbox"/>

# How did you do?

**How many of our 10 questions  
have you answered 'yes'?**

**All 10 – You're good to go!**

**6-9 – You're on your way**

**0-5 – You really need to engage**



# Don't forget the broader business impacts



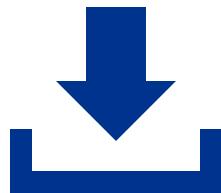
## Have you...

- **updated your management reporting, including KPIs?**
- **developed a transition plan for parallel runs, including reconciliations?**
- **thought about the tax implications?**
- **calculated the impact on bonus schemes?**
- **compared your approach with peers?**

# Find out more



**Talk to your  
usual KPMG  
contact**



**Use our  
Transition  
toolkit**



**Follow the  
discussion on  
LinkedIn**



[kpmg.com/socialmedia](http://kpmg.com/socialmedia)

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