



Pharmaceuticals

IFRS 15 Revenue – Are you good to go?

May 2017

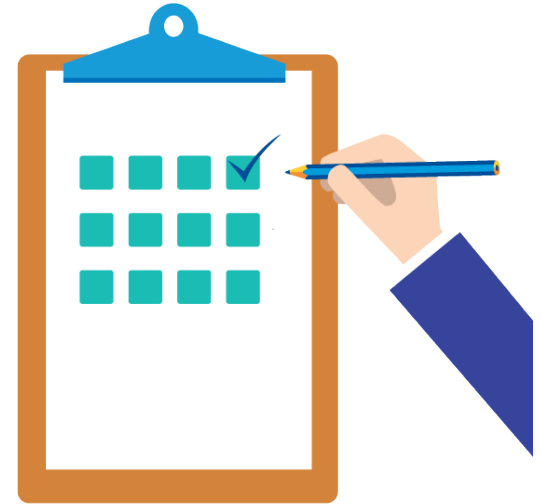
kpmg.com/ifrs



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.

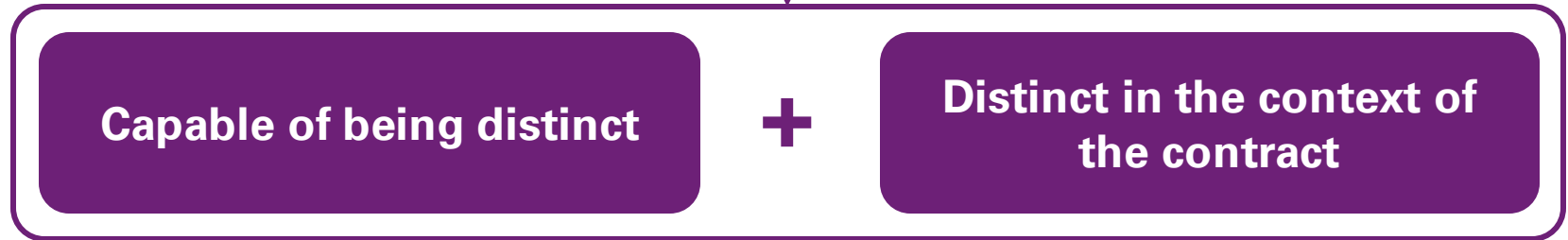


**For each of the following,
documenting your analysis
and the conclusions drawn
will be essential**



Performance obligations

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

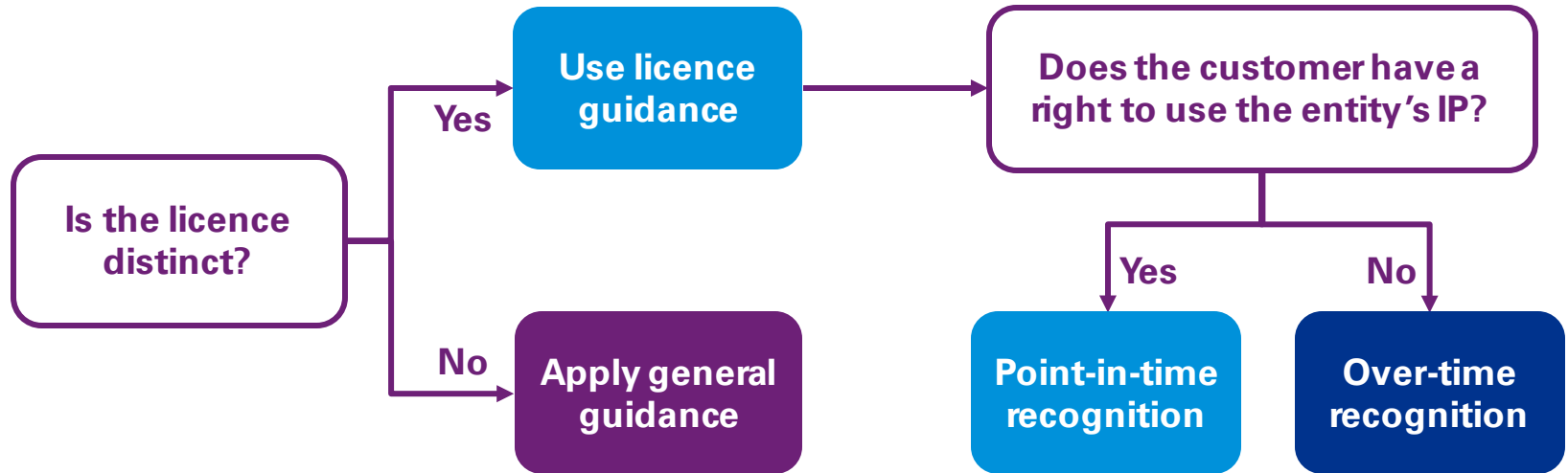


Think about...

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**?

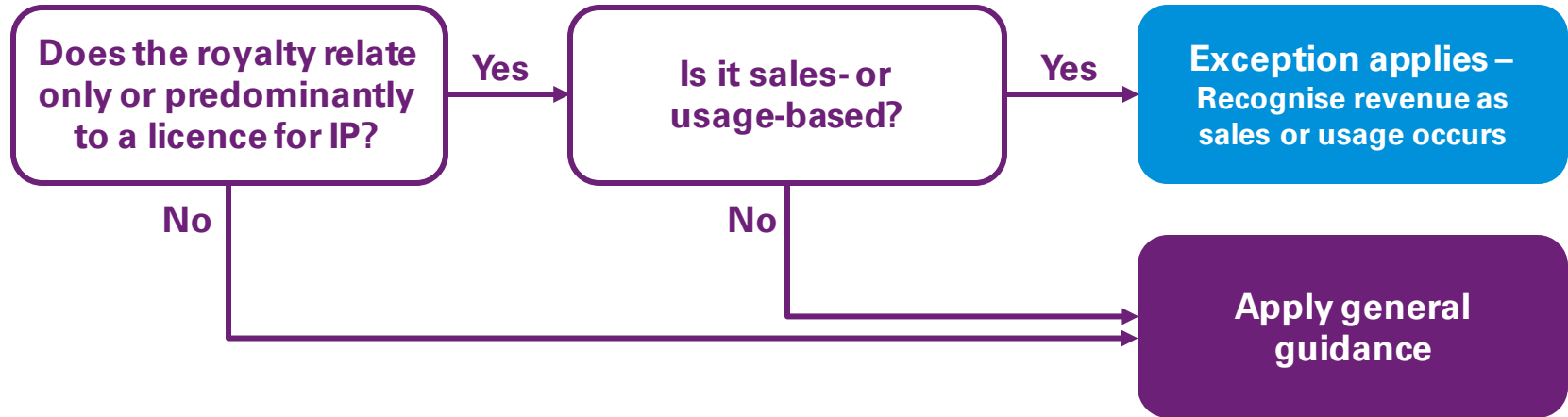


Think about...

Milestone payments | Volume discounts | Bonuses | Rights of return

Royalty arrangements

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

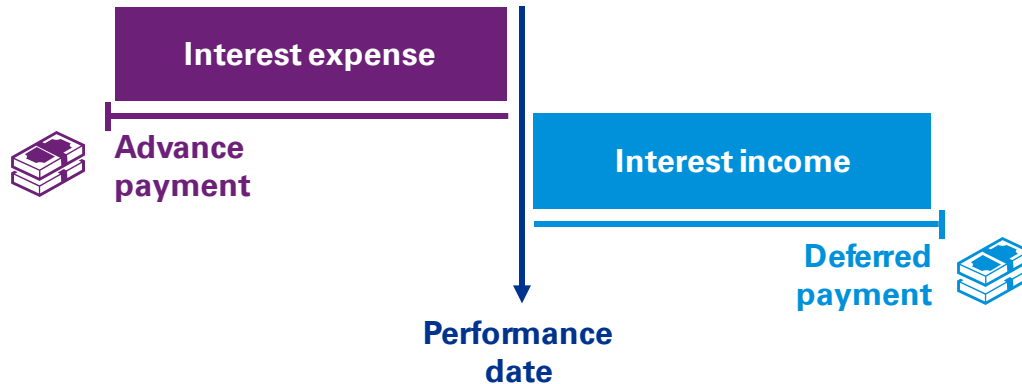


Think about ...

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?



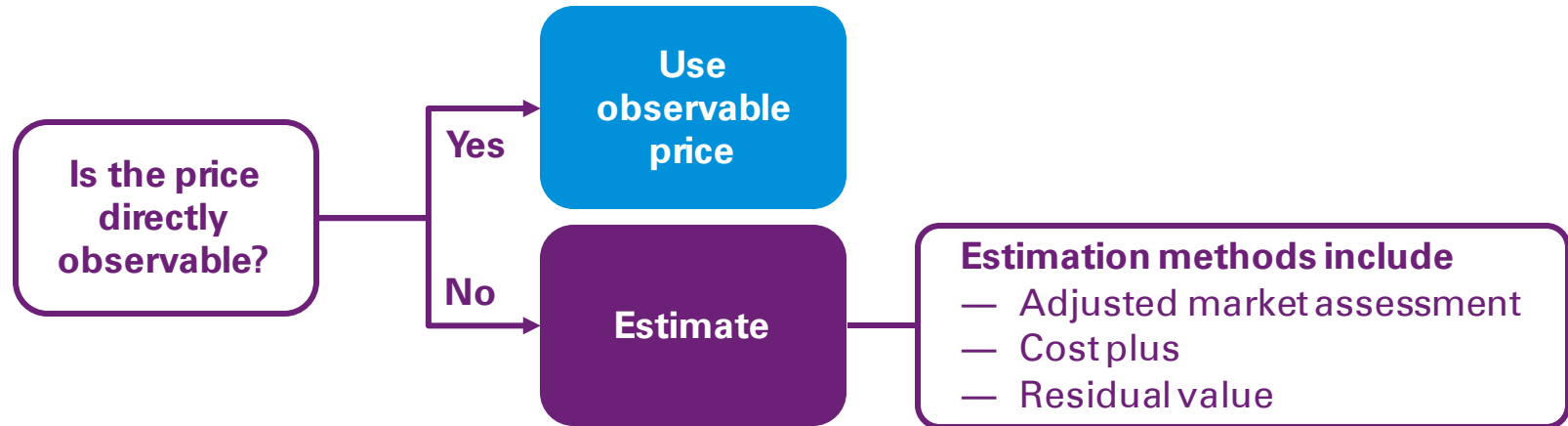
Practical expedient – No need to recognise if period between payment and performance is < 1 year



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?

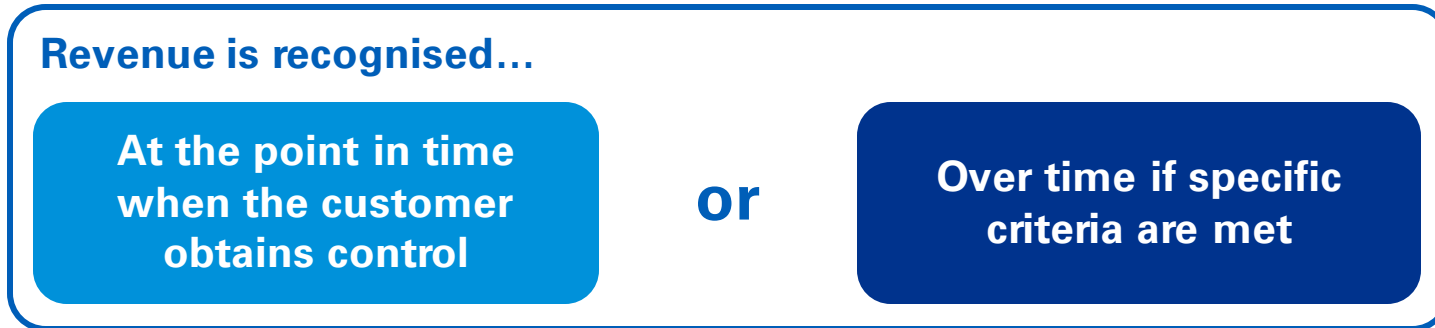


Think about ...

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?**



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?



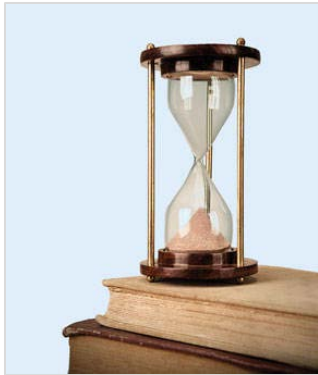
Use the helpful guidance in our *Transition Options* and *Issues In-Depth* publications



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

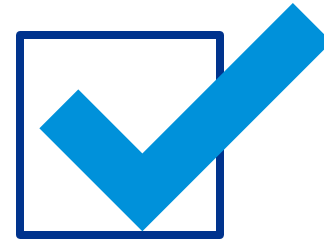
How did you do?

**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



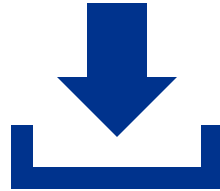
Have you...

- 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

© 2017 KPMG IFRG Limited, a UK company limited by guarantee. All rights reserved.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative (“KPMG International”) is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.