# Pharmaceuticals

## IFRS 15 Revenue – Are you good to go?

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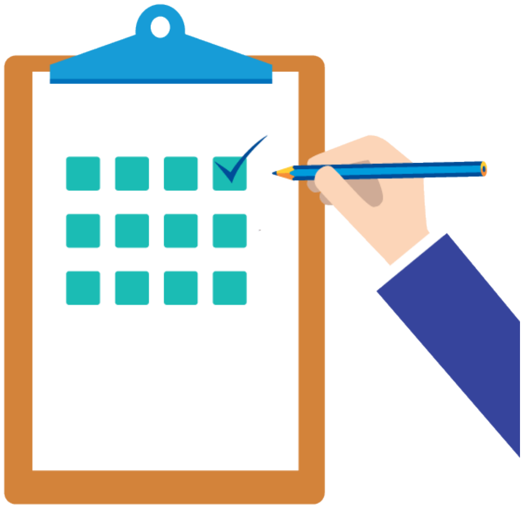
# Are you good to go?

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?**

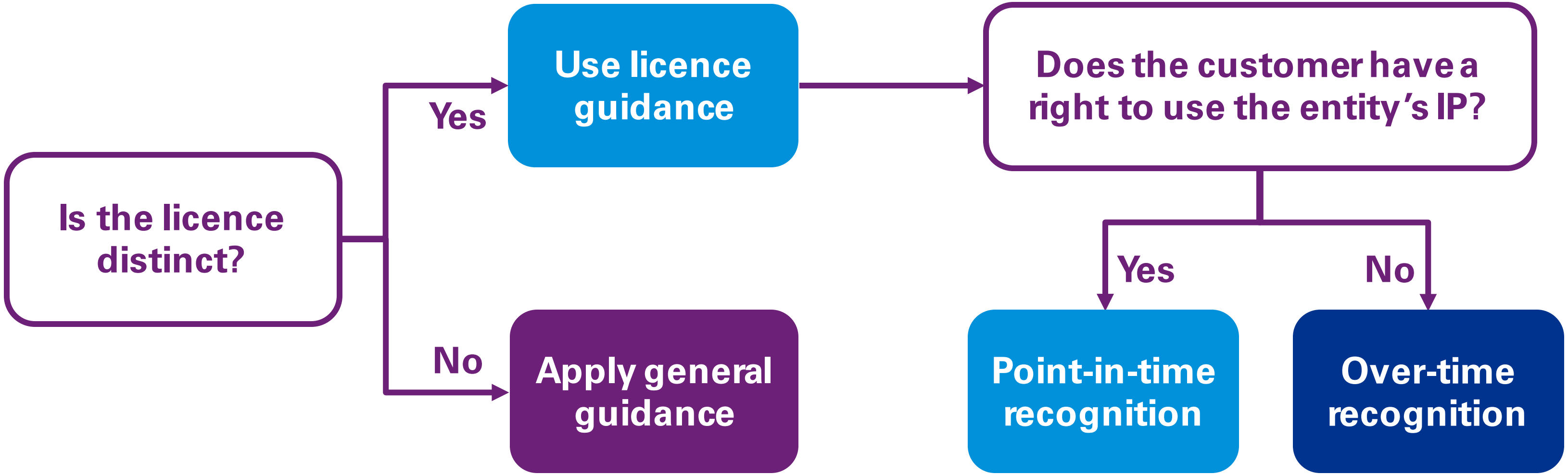
**Capable of being distinct** + **Distinct in the context of the contract**

**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?**

**Expected value**

**or**

**Most likely amount**

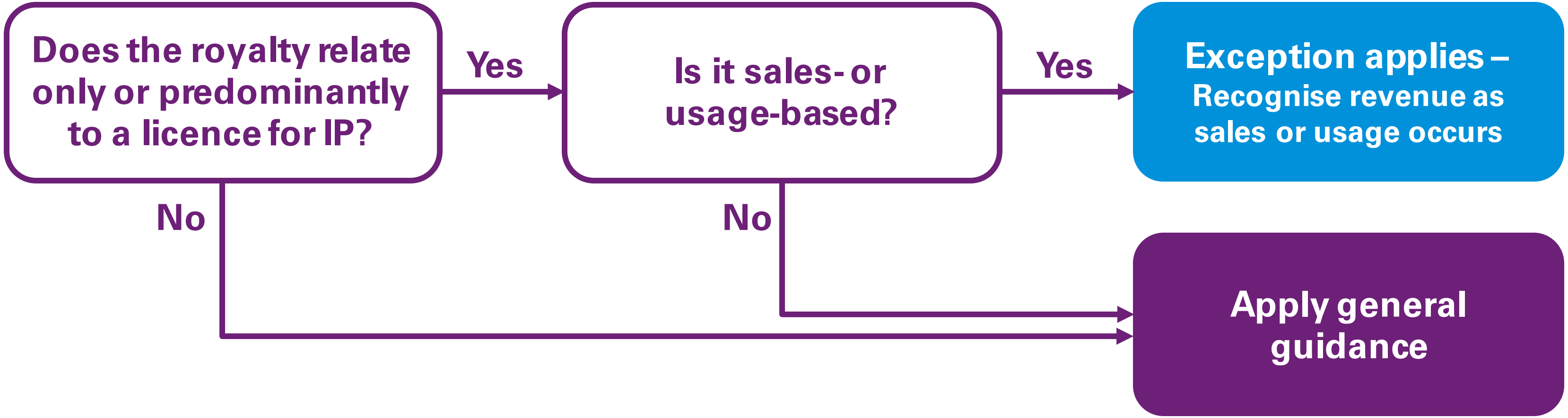
**Could there be a significant revenue reversal?**

**Think about…**

**Milestone payments | Volume discounts | Bonuses | Rights of return**

# Royalty arrangements

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

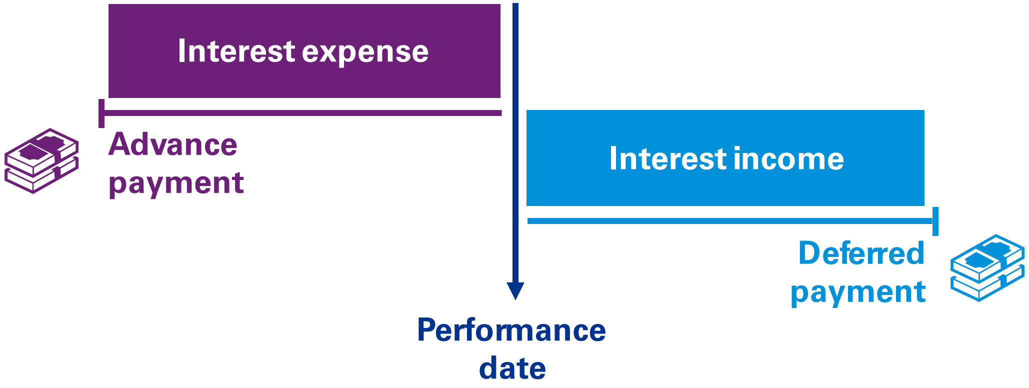



**Think about …**

**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?

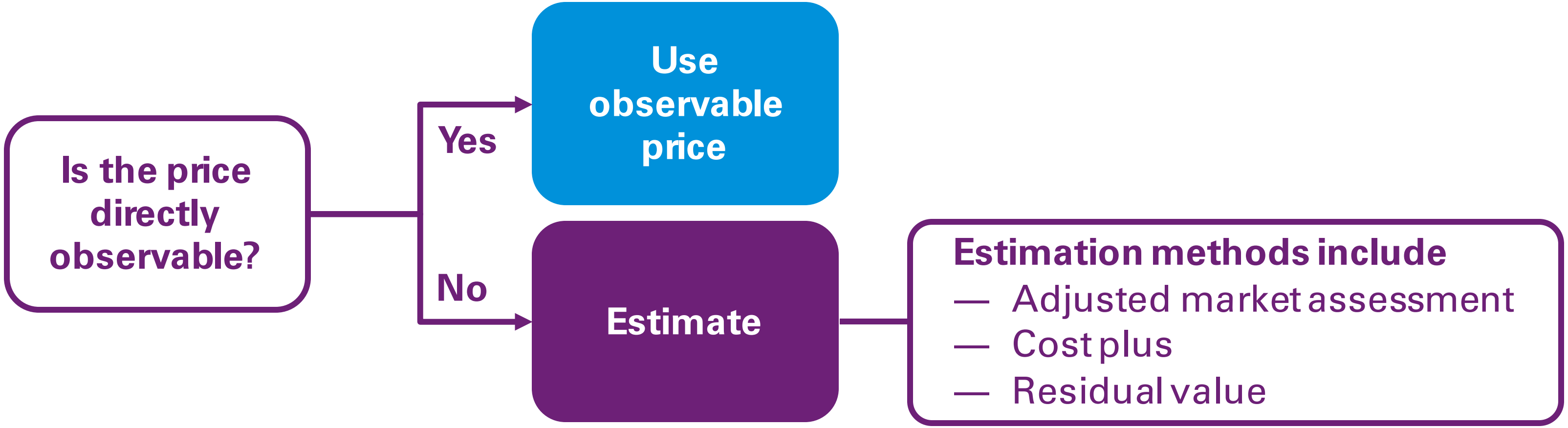



**Practical expedient – No need to recognise if period between payment and performance is < 1 year**

**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?**

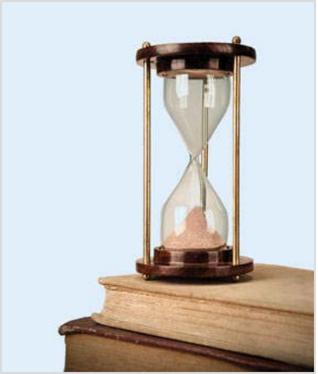


**Use the helpful guidance in our *Transition Options* and *Issues In-Depth* publications**

**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...? | ☑ |
|---|---|
| Determined whether your contracts include **more than one performance obligation**? | ☐ |
| Determined how to account for your **licensing arrangements**? | ☐ |
| Revised your estimates of **variable consideration** elements – e.g. milestone payments and volume discounts? | ☐ |
| Assessed whether your **royalty arrangements** qualify for the royalty exception? | ☐ |
| Identified and calculated any **significant financing components**? | ☐ |

| Have you...? | ☑ |
|---|---|
| Determined the stand-alone selling prices of your performance obligations and **allocated the transaction price**? | ☐ |
| Assessed whether the **timing of your revenue recognition** will change? | ☐ |
| Determined whether part or all of any of your agreements are **collaborative arrangements**? | ☐ |
| Identified and quantified your **transition adjustments**? | ☐ |
| Identified the additional information needed to meet the **disclosure requirements**? | ☐ |

# 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