

5.7 | Realization concept

- Realization concept and relevance
- Application of the concept in preparing financial statements

Realization concept

Realization concept entails the moment/date when the transfer to customers takes place:

- for a transaction, it is the transfer of economic benefits and risks
- for a product, it is the transfer of ownership
- for a service, it is the moment when the service is provided
- for an income, it is the time when income is realized

Application of the concept in preparing financial statements

Credit sales	Even though the money has not yet been received, the ownership of the goods has been exchanged and the benefits and risks have been transferred to the customer. Therefore, this is recognized as income.
Goods sold but not taken away	For goods that have already been sold but still not physically taken away, the ownership has been exchanged. Therefore, it is considered as income.
Basis of sale or return	When goods have been supplied on the basis of sale or return, the ownership of the goods has still not been exchanged. Therefore, this cannot be recognized as income.



