LEGAL AND ACCOUNTING CONSIDERATIONS FOR NON-PROFIT ORGANIZATIONS: A COMPARATIVE STUDY OF MACEDONIAN AND CROATIAN REGULATIONS

Ivan Dionisijev
Ss. Cyril and Methodius University in Skopje, Faculty of Economics – Skopje
ivan.d@eccf.ukim.edu.mk

Ivana Perica
University of Split, Faculty of Economics, Business and Tourism
iperica@efst.hr

ABSTRACT
Non-profit organizations play a critical role in addressing societal needs and fostering social welfare. They depend on robust accounting frameworks to ensure transparency, accountability, and effective financial management. However, the legal and regulatory environments governing NPO accounting practices vary internationally, impacting operational and reporting requirements. In recent years, North Macedonia and Croatia have witnessed substantial growth in their non-profit sectors, spanning education, healthcare, environment, and social development. With an increasing number and complexity of NPOs, it is essential to analyze the legal frameworks shaping their accounting practices to ensure reliable and comparable financial data. This study conducts a comparative analysis of the legal frameworks and accounting regulations governing NPOs in North Macedonia and Croatia. It examines aspects such as registration procedures, tax regulations, financial reporting, and governance requirements. The comparative analysis in this research paper provides insights into the intricacies of legal, taxation, and accounting aspects within NPOs in North Macedonia and Croatia. It underscores the need for NPOs to navigate specific regulations governing their operations in each country. Researchers, policymakers, and practitioners can draw valuable insights from this study to gain a deeper understanding of challenges and opportunities within the non-profit sector in these contexts. Significant potential exists for future comprehensive analysis utilizing a quantitative methodology coupled with a meticulously crafted questionnaire. This survey instrument could be systematically distributed to a purposive sample of NPOs in both countries under investigation. Furthermore, interviews with duly authorized representatives of NPOs, strategically scheduled in the research timeline, hold promise for enriching our comprehension of the responses garnered through the administered questionnaires.

Keywords: *Non-profit organizations, Accounting, North Macedonia, Croatia*

JEL classification: *L31, M41*

1. INTRODUCTION

Non-profit organizations (NPOs) play a vital role in fostering social welfare and addressing various societal needs. As crucial pillars of civil society, these organizations rely on robust accounting frameworks to ensure transparency, accountability, and sound financial management. The legal and

http://doi.org/10.47063/EBTSF.2023.0001

http://hdl.handle.net/20.500.12188/28822

regulatory frameworks that govern accounting practices for NPOs differ across countries, influencing their operational and reporting requirements.

In recent years, both North Macedonia and Croatia have experienced significant growth in their non-profit sectors, with organizations actively engaged in diverse fields such as education, healthcare, environment, and social development. As the number and complexity of these organizations increase, it becomes imperative to examine the legal frameworks that shape their accounting practices, ensuring the reliability and comparability of financial information.

Understanding the legal frameworks in these countries is crucial for policymakers, regulators, practitioners, and researchers to enhance the transparency, accountability, and financial sustainability of non-profit organizations. It provides valuable insights into the challenges faced by these organizations and paves the way for the development of more effective regulatory mechanisms, streamlined reporting practices, and improved financial management strategies.

This paper aims to conduct a comparative analysis of the legal frameworks and accounting regulations for NPOs in North Macedonia and Croatia, shedding light on the similarities, differences, challenges, and opportunities within these two contexts. The research explores various dimensions of the legal frameworks, including registration procedures, tax regulations, financial reporting, and governance requirements. Through the implementation of a comprehensive comparative analysis, the primary objective of the paper is to elucidate the inherent merits and limitations of the extant frameworks. Moreover, this research seeks to discern prospective avenues for enhancement while fostering a more profound comprehension of the overarching accounting landscape for nonprofit entities in North Macedonia and Croatia.

To conduct the comparative analysis within this research paper, a qualitative research approach is utilized. The research entails an exhaustive examination of pertinent scholarly literature, encompassing legal enactments, accounting guidelines, and academic investigations. Additionally, as part of the research endeavor, a meticulously designed questionnaire will be formulated, which will subsequently be distributed to NPOs in North Macedonia and Croatia. Furthermore, arrangements are in place for conducting interviews with authorized representatives of these institutions to facilitate a more profound comprehension of the responses garnered from the questionnaire.

2. LITERATURE REVIEW

Financial accounting plays a critical role in NPOs by ensuring transparency, accountability, and effective financial management. This literature review examines the various accounting frameworks and practices employed in NPOs, focusing on money accounts versus profitability accounts, commercial accounting, and fund accounting.

Monsen (2009) discussed the distinction between money accounts and profitability accounts which are two key aspects of financial accounting in NPOs. Revenues, representing returns from any source, and expenditures, reflecting the act of spending, form the basis of financial transactions. Money accounts capture the immediate or future cash flows of an organization, influencing its working capital. On the other hand, profitability accounts measure the impact of revenues earned and expenditures incurred on an organization's equity Monsen (2009).

Commercial accounting, also known as accrual accounting, emphasizes performance rather than the immediate money effect. It is widely used by profit-making entities and influences the accounting practices of NPOs. Commercial accounting employs modern double-entry bookkeeping, facilitating the presentation of performance results by comparing earned revenue and incurred expenses within a specific period. This approach allows for a comprehensive view of financial performance, irrespective of cash inflows and outflows. The merchants' double-entry bookkeeping method, as highlighted by Walb (1926), has been instrumental in this regard.

Fund accounting is a specialized system that addresses the unique financial transactions of NPOs. Funds and monetary resources established to support specific activities are independently operated and accounted for. The purpose of fund accounting is to present financial transactions in a manner that reflects accountability. It involves separate record-keeping for various activities, including restricted resources donated for specific reasons, portions of unrestricted resources set aside by the board for future use, and all other unrestricted amounts. The double-entry bookkeeping system is employed in fund accounting, focusing on revenues, expenditures, and the specific allocation of funds (Herzlinger & Sherman, 1980).

The pivotal role of financial resources in driving the operations and social mission of NPOs cannot be understated. Despite limited empirical research on NPOs' capital structure and debt ratio, existing findings consistently indicate a prudent reliance on credit financing, particularly financial debt (Jegers, 2011; Jegers & Verschueren, 2006; Smith, 2012; Trussel, 2012; Turner et al., 2015). Comparative studies further underscore NPOs' relatively modest use of credit financing compared to their for-profit counterparts (Trussel, 2012; Turner et al., 2015).

The theoretical underpinning of NPOs' capital structure decisions often mirrors frameworks applied in the for-profit context, chiefly the trade-off theory, pecking order theory, and agency theory. The static trade-off theory posits an optimal capital structure resulting from a nuanced balance between credit-related costs and benefits (Modigliani & Miller, 1958). Conversely, the pecking order theory posits a finance hierarchy influenced by information asymmetry and adverse selection costs, favoring internal financing over external debt (Myers, 1984; Myers & Majluf, 1984; Van Caneghem & Van Campenhout, 2012).

Furthermore, the measurement and analysis of earnings management (EM) in the financial reporting process have been subject to various definitions. Schipper (1989) defines EM as a voluntary act of intervening in the financial reporting procedure to obtain private advantages. This perspective is supported by Healy and Wahlen (1999), who describe EM as the use of managerial judgment in financial reporting and structuring transactions to alter financial reports, either to mislead stakeholders about the company's economic performance or to influence contractual outcomes dependent on reported accounting figures (Healy & Wahlen, 1999, p. 368). This definition has spurred numerous studies on EM, forming the basis for researchers exploring EM in both profit and non-profit settings (Dechow & Skinner, 2000; Dechow & Dichev, 2002; Klein, 2002; Leuz et al., 2003; Ballantine et al., 2007; Xu et al., 2007; Verbruggen et al., 2008; Verbruggen & Christiaens, 2012).

To identify the phenomenon of EM in the non-profit context, researchers have employed different measurement techniques. These include the allocation of costs to report zero fundraising costs despite significant contributions and zero administrative expenses (Yetman, 2001; Krishnan et al., 2006; Yetman, 2011), manipulation of program ratios through cost-shifting (Jones & Roberts, 2006; Keating et al., 2008), discretionary use of accruals accounting and the distribution of zero earnings (Omer & Yetman, 2003; Leone & Van Horn, 2005; Ballantine et al., 2007; Verbruggen & Christiaens, 2012; Jegers, 2013).

Previous studies have revealed that NPOs engage in EM for various reasons. These include executive compensation and reputation (Gaver et al., 1995; Guidry et al., 1999; Myung Seok & Taewoo, 2004; Bergstresser & Philippon, 2006; Chava & Purnanandam, 2010), debt covenants (Jaggi & Lee, 2002; Saleh & Ahmed, 2005), capital market motives (Friedlan, 1994; Teoh et al.,

1998; Godfrey & Koh, 2003; DuCharme et al., 2004), and political costs motives (Sivakumar & Waymire, 2003; Wilson & Shailer, 2007). Study by Verbruggen and Christiaens (2012) in the non-profit sector support the notion that EM may be employed to mislead stakeholders who rely on financial information for performance assessment and grant decision-making. Consequently, it is argued that NPOs engage in EM to report higher efficiency ratios, enhance public accountability for fund management, attract further donations, manipulate income and expenses to minimize tax liability, respond to pressure from regulators and monitoring organizations, meet operational targets, and achieve financial incentives (e.g., cost of debt, compensation) (Khumawala et al., 2005)
Accounting serves the purpose of recording and tracking an organization's financial activities, including assets, liabilities, sales, and purchases. In the context of non-profit organizations (NPOs), establishing accurate financial systems and adhering to accounting norms are crucial for ensuring performance.

Governments worldwide have scrutinized accountability issues and governance in the non-profit sector due to financial reporting problems faced by NPOs (Vermeer et al., 2009). NPOs heavily rely on donations, government grants, and volunteerism, which has led to arguments that accountability in these organizations needs significant improvement. However, the precise definition of accountability remains elusive and varies across different sources (Patton, 1992). Among the various definitions, accountability is often associated with transparency regarding an organization's activities and performance in fulfilling its mission. Additionally, accountability enhances an NPO's legitimacy and reduces the risk of sanctions (Cordery & Baskerville, 2007).

Different user groups have distinct needs and preferences when it comes to accountability, leading to various accountability bases. This diversity of user groups and accountability bases poses challenges in identifying the necessary information required for accountability purposes (Connolly & Hyndman, 2004). Recognizing the importance of improving accountability, public officials advocate for increased regulation of financial disclosures from NPOs (Calabrese, 2011). Accounting information is considered a significant mechanism for achieving accountability, as it facilitates the flow of crucial information (Calabrese, 2011). According to the National Council of Nonprofits (2021), financial transparency in NPOs is essential for legal compliance and ethical leadership. It preserves the trust donors place in NPOs and fosters a positive workplace culture among employees. Many NPOs demonstrate their commitment to transparency by publishing their financial statements or reports on their websites, providing easy access to financial information for interested parties.

Financial statements play a crucial role in assessing the financial position of NPOs by providing information about their fund acquisition and expenditure. However, it has been argued that financial statements offer only a partial understanding of an organization. They provide limited insights into the impact on performance and success in the non-profit sector. To address NPOs' accountability, accounting narratives are introduced to communicate achievements, performance, and future plans to stakeholders, including strategies, activities, and objectives. Donors often seek non-financial information such as efficiency, goals, and output. Therefore, it is important to consider both financial and non-financial information in reporting.

Empirical studies emphasize the need for regular forecasted financial statements and timely reporting. Financial records hold valuable insights into social and economic history, but extracting relevant information can be challenging. Information technology has been recognized as a facilitator of management accounting procedures, managing, analyzing, and aiding decision-making through accounting information systems (Mahdi et al., 2010). Effective accounting systems significantly impact the performance and survival of organizations, especially small and mediumsized enterprises. The quality of accounting information systems is evaluated based on criteria such as security, reliability, compatibility with other software, and simplicity.

The auditing process serves as a defensive measure against the improper utilization of funds in NPOs. NPOs face significant financial challenges in implementing program procedures and meeting their financial requirements. The scrutiny of NPOs considers their unique nature, their relationship with the environment, the complexity of their operations, and the difficulties in defining the boundaries of their activities and establishing clear distinctions between non-profit organizations and other entities (Helmig et al., 2004). Two types of audits can be distinguished: internal audits and external audits.

3. METHODOLOGY

This research employs a qualitative and comparative research design to examine the legal frameworks, taxation policies, and accounting regulations governing NPOs in North Macedonia and Croatia. The study commences with an in-depth documentary analysis of legal documents, tax codes, accounting regulations, and relevant government publications from both countries. This qualitative analysis unveils key provisions, similarities, and distinctions in the legal frameworks of North Macedonia and Croatia, shedding light on the structural and functional aspects of these regulatory environments.

Qualitative analysis is fundamental in providing an insightful foundation for the comparative research. By delving into the specifics of each country's legal and regulatory landscape, the study elucidates the intricacies and nuances of NPO governance in these regions. This detailed understanding is crucial for discerning the operational and reporting requirements placed on NPOs by their respective legal and regulatory contexts.

The research further engages in a comparative analysis, systematically contrasting the legal and regulatory frameworks of North Macedonia and Croatia. It highlights areas of alignment and divergence, enabling a nuanced evaluation of the challenges and opportunities faced by NPOs in these distinct contexts.

While this research currently focuses on qualitative analysis and comparative assessment, it is poised for the development of a quantitative methodology in the future. This expansion may involve the creation of a structured questionnaire to collect data from NPOs in both countries, enhancing the depth of analysis and providing a more comprehensive understanding of the experiences and challenges faced by these organizations. For now, the qualitative and comparative methods serve as a robust foundation for this study, offering essential insights into the legal and regulatory landscapes that shape NPO operations in North Macedonia and Croatia.

4. RESULTS AND DISCUSSION: COMPARATIVE ANALYSIS OF LEGAL FRAMEWORKS, TAXATION, AND ACCOUNTING POLICIES IN NORTH MACEDONIA AND CROATIA

The legal frameworks governing NPOs in North Macedonia and Croatia play a crucial role in regulating their establishment, operation, and financial management. In North Macedonia, *the Law on Associations and Foundations* serves as the primary legislation, providing comprehensive guidelines for the establishment, registration, and termination procedures of associations, foundations, and foreign organizations. It covers essential aspects such as property ownership, supervision mechanisms, status changes, and the recognition of organizations of public interest. In

Croatia, the legal framework for NPOs is primarily governed by the *Law on Associations*, which addresses the establishment, legal position, operation, registration, financing, liability, and termination of associations with legal entity status. Additionally, it also encompasses the registration and termination procedures for foreign associations operating within the country. This law provides a comprehensive regulatory framework ensuring the effective functioning of NPOs in Croatia (see table 1).

Table 1: NPOs Legal Frameworks in North Macedonia and Croatia

NORTH MACEDONIA		CROATIA	
Act	**Explanation**	**Act**	**Explanation**
Law on Associations and Foundations	Regulates the manner, conditions and procedure for establishment, registration and termination of associations, foundations, alliances, organizational forms of foreign organizations in the Republic of North Macedonia, the property they have, supervision, status changes and the status of organizations of public interest.	**Law on Associations**	Regulates the establishment, legal position, operation, registration, financing, property, liability, status changes, supervision, termination of the existence of an association with the status of a legal entity, and the registration and termination of the operation of foreign associations in the Republic of Croatia.
Law on Accounting for Non-Profit Organizations	Regulates the management of accounting, business books, accounting documents and data processing, recognition of income and expenses, assessment of balance sheet positions, revaluation, financial statements, submission of financial statements and other issues related to the accounting of the economic interest community, associations of citizens and foundations, other forms of association, political parties, religious communities, religious groups and others, the Red Cross of the Republic of North Macedonia, associations of foreigners, foreign and international non-governmental organizations, humanitarian organizations and associations, trade unions and other legal entities established with special regulations from which it follows that they are non-profit organizations, unless otherwise regulated by another regulation.	**Act on financial operations and accountancy of non-profit organizations**	Regulates the framework for financial operations and the elements of the accounting system of non-profit organisations, which includes principles of financial management system, preparation and execution of financial plans, reporting on budget funds spending, accounting principles and activities, business records and accounting documents, list of assets and liabilities, principles of declaring asset, commitments and own resources and principles of recognizing revenues, expenditures, receipts and expenses, financial reporting, audit of annual financial statements, publication of annual financial statements, supervision of financial transactions and accounting, and other areas related to financial operations and accountancy of non-profit organisations
		The ordinance on non-profit accounting and the chart of accounts	Regulates the layout, content and application of accounts in the chart of accounts, the method of keeping simple bookkeeping and the application of the monetary accounting principle, the minimum content of the business books of simple bookkeeping and depreciation rates are defined
A Guide to Accounting for a Nonprofit	Prescribes the management of accounting, business books, accounting documents and data processing, the organization of accounting, the	**The ordinance on reporting in non-profit accounting**	Prescribes the form and content of financial statements and declarations of inactivity, the periods for which the financial statements are drawn up, and

Organization	recognition of income and expenses, the assessment of balance positions, the revaluation and the inventory of non-profit organizations determined by the Law on Accounting for Non-Profit Organizations.	**and the Register of Non-Profit Organizations**	the obligations and deadlines for their submission. Regulates the minimum content and deadlines for submission of reports on the use of budget funds, as well as the method of keeping, entering, deleting and changing data in the Register of Non-Profit Organizations
Rulebook on the content of separate accounts in the chart of accounts for non-profit organizations	Prescribes the content of the separate accounts in the chart of accounts for non-profit organizations.	**The Ordinance on the system of financial management and control, and the preparation and execution of financial plans of non-profit organizations**	Determines the method of conducting a self-assessment of the functioning of the financial management and control system of a non-profit organization, and prescribes the methodology for creating a financial plan, amending and supplementing the financial plan, as well as the method and conditions for executing the financial plan

(Source: Adopted to the NPOs Legal Regulation in North Macedonia and Croatia)

The Law on Accounting for Non-Profit Organizations in North Macedonia outlines the specific requirements for managing accounting practices within the non-profit sector. It encompasses various elements, including the recognition of income and expenses, assessment of balance sheet positions, financial statement preparation, and submission procedures. This law applies to a wide range of non-profit entities, including economic interest communities, associations of citizens, foundations, political parties, religious communities, and international non-governmental organizations. To complement the Law on Accounting for Non-Profit Organizations, a *Guide to Accounting for a Nonprofit Organization* offers detailed instructions and guidelines on accounting management tailored specifically for non-profit organizations in North Macedonia. It covers various aspects, such as accounting procedures, income and expense recognition, balance sheet assessment, revaluation, and inventory processes. This guide serves as a valuable resource to ensure compliance with accounting standards and practices within the non-profit sector.
The Act on Financial Operations and Accountancy of Non-Profit Organizations in Croatia establishes the framework for financial operations and the accounting system specific to non-profit organizations. It encompasses various aspects, including financial management principles, financial planning, reporting on budget funds spending, accounting principles and activities, business records and accounting documents, asset and liability management, revenue recognition, financial reporting, audit requirements, and supervision of financial transactions. This act ensures transparency, accountability, and sound financial management within the non-profit sector in Croatia. To further support financial operations and accounting practices, the Croatian legal framework includes the *Ordinance on Non-Profit Accounting and the Chart of Accounts*. This ordinance defines the layout, content, and application of accounts within the chart of accounts for non-profit organizations. It specifies the method of keeping simple bookkeeping records, the minimum content requirements for business books, and depreciation rates. By adhering to this ordinance, non-profit organizations can ensure standardized accounting practices and facilitate accurate financial reporting. Moreover, the *Ordinance on Reporting in Non-Profit Accounting and the Register of Non-Profit Organizations* in Croatia establishes guidelines for financial statement reporting and the submission of declarations of inactivity. It defines the form and content

requirements for financial statements, the reporting periods, and the obligations and deadlines for submission. This ordinance also regulates the reporting of budget fund usage and the maintenance of the Register of Non-Profit Organizations, including the method of data management and the procedures for entering, deleting, and modifying organization data.

In North Macedonia, the taxation of non-profit organizations is determined based on their status as taxpayers or non-taxpayers. Non-profit organizations, such as associations of citizens, foundations, political parties, religious communities, and humanitarian organizations, are exempt from profit tax if their income is generated from various sources such as membership fees, voluntary contributions, donations, grants, gifts, legacies, dividends from trading companies established with association funds, and revenues from government-approved programs. However, if these organizations engage in economic activities within the framework of their non-profit activities and their total annual income from such activities exceeds 1,000,000 denars, they become liable for the calculation and payment of tax on total income. The tax rate for non-profit organizations in Macedonia is set at 1% of the total income from economic activity (see table 2).

In Croatia, non-profit organizations are not considered taxpayers under the Profit Tax Act. However, if they engage in economic activities that provide them with unjustified privileges in the market, they are required to register in the register of taxpayers. The taxation of non-profit organizations in Croatia differs depending on the type of tax. Regarding profit tax, non-profit organizations performing specific economic activities that lead to unjustified market power are obliged to register as taxpayers within eight days from the start of such activities. The profit tax rate is either 10% or 18%, depending on the income from economic activity in the tax period. As for value-added tax (VAT), non-profit organizations are usually not liable for VAT, but they become taxpayers if the value of their delivered goods and performed services, not exempt from VAT, exceeds a certain threshold per year. The VAT tax rate in Croatia is either 25%, 13%, or 5%, depending on the category of goods or services (see table 2).

Table 2: Taxation of NPOs in North Macedonia and Croatia

	NORTH MACEDONIA	**CROATIA**
Who is NOT a taxpayer?	Associations of citizens and foundations as well as their alliances and other forms of association or connection, the economic interest community, political parties, religious communities, religious groups, the Red Cross of the Republic of North Macedonia, associations of foreigners, foreign and international non-governmental organizations, humanitarian organizations and associations, trade unions, chambers and other legal entities established by special regulations from which it follows that they are non-profit organizations, **are not liable for profit tax** if they generate income from: • membership fees, • voluntary contributions, • donations, • grants, • gifts (in money, goods, property rights), • legacies, • income from dividends from the trading companies established with the funds of the association and • revenues from the Budget of the Republic, the budgets of the local self-government units and the Budget of the City of Skopje based on previously prepared programs (projects) approved by the Government	**Profit tax:** Non-profit organizations, although they are not considered taxpayers following the Profit Tax Act, are obliged to register in the register of taxpayers if they perform an economic activity by which they acquire unjustified privileges on the market. The difference between income and expenses as a starting point does not represent the difference between the non-profit organization's total income and expenses, but only the part related to economic activity. **Value-added tax:** As a rule, non-profit organizations do not engage in entrepreneurial activity, so they are usually not liable for value-added tax (VAT). A non-profit organization becomes liable for value-added tax if the value of delivered (sold) goods and performed services that are not exempt from VAT exceeds the amount of EUR 30,526.25 per year. Donations, gifts, grants, and membership fees are not included in the criteria for determining taxation. Regarding the tax status of certain entities that perform activities of public interest, the Ministry of Finance, among others,

	of the Republic of North Macedonia, i.e. the competent ministries, the councils of the local self-government units and the Council of the City of Skopje .	took the position that, for example, the activity of the Red Cross belongs to entrepreneurial activity and is not subject to taxation.
Who is a taxpayer?	Associations of citizens and foundations as well as their alliances and other forms of association or connection, the economic interest community, political parties, religious communities, religious groups, the Red Cross of the Republic of North Macedonia, associations of foreigners, foreign and international non-governmental organizations, humanitarian organizations and associations, unions, chambers and other legal entities established by special regulations from which it follows that they are non-profit organizations that realize income from performing economic activity within the framework of their non-profit activity, for the purpose of avoiding unfair competition with entities to whom the profit made from performing economic activity is taxes, become liable for calculation and payment of tax on total income, if the total annual income from economic activity is greater than 1,000,000 denars.	**Profit tax:** Non-profit organizations that perform a specific economic activity that would gain unjustified market power are obliged to register in the register of taxpayers within eight days from the start of that activity. In determining economic activity, it is necessary to decide whether non-taxation leads to unjustified privileges on the market and whether this activity is performed independently, permanently, and to achieve profit or other economically estimable benefits. The obligation to pay profit tax is determined in some instances, namely the permanent performance of activities for a fee, such as the provision of catering services, provision of services for the use of recreation areas, provision of accounting-bookkeeping, administrative-financial, information-communication and/or consulting services to other physical and/or legal persons for a fee, leasing for a fee business, residential or other premises, equipment and means of work. **Value-added tax:**The entrepreneurial activity of a non-profit organization can have the status of taxable activity with the right to deduct input tax and the status of activity exempt from VAT without the right to deduct input tax. Non-profit organizations that perform taxable supplies provided that the value of taxable supplies in the previous year was greater than EUR 39,816.84, become a taxpayer. The economic activity of non-profit organizations can be, for example, the rental of office space, the organization of courses, seminars, events, publishing activities, and the like.
Tax Rate	The total income tax for non-profit organizations is calculated and paid in the amount of 1% of the amount of the total income from economic activity.	**Profit tax** is calculated on the established tax base at the rate of: • 10% if, in the tax period, the income from the economic activity was up to EUR 995,421.06, or • 18% if, in the tax period, the income from economic activity is equal to or greater than EUR 995,421.06. **Value-added tax (VAT)**: The VAT tax rate is 25%, or 13% or 5%.

(Source: Adopted to the NPOs Legal Regulation in North Macedonia and Croatia)

It should be noted that NPOs in both Macedonia and Croatia may have specific conditions and exemptions regarding their tax obligations. For example, in Macedonia, the Ministry of Finance has taken the position that certain activities of the Red Cross belong to entrepreneurial activity and are not subject to taxation. Similarly, in Croatia, the determination of economic activity and the

obligation to pay profit tax depend on factors such as the nature and duration of the activity, profit generation, and market power. These taxation regulations aim to strike a balance between promoting the non-profit sector's activities and ensuring fairness in the market. By exempting non-profit organizations from certain taxes or imposing tax obligations based on their economic activities, these regulations encourage the growth and sustainability of non-profit organizations while preventing unfair competition and maintaining tax revenues.
Finally, a comparative analysis was made of the accounting regulations of NGOs in North Macedonia and Croatia (see table 3).

Table 3: NPOs Accounting

	NORTH MACEDONIA	**CROATIA**
Type/System of accounting used	Double-entry accounting.	Double-entry accounting. As an exception, the legal representative of a non-profit organization may make a Decision on maintaining the simple-entry bookkeeping and on the application of the cash accounting principle if: the value of the asset of a non-profit organization, at the end of each of the previous three years, was successively lower than 30.526,25 euro, and if the annual income of a non-profit organization in each of the previous three years is successively lower than 30.526,25 euro per year. During the first three years from its establishment, a non-profit organization shall be obliged to maintain double-entry bookkeeping.
Revenues and expenses recognition	Modified accrual accounting principle	The accrual accounting principle
Assessment of balance sheets positions	Modified accrual accounting principle	The accrual accounting principle.
Financial Statements	Balance sheet, Income and Expenses Statement and notes to the financial statements	Balance sheet, Income and Expenses Statement and notes to the financial statements. Financial statement of a non-profit organization that apply the simple-entry bookkeeping: annual financial statement on receipts and expenditures and notes to the financial statements.
Audit of annual financial statements	/	Financial statements of a non-profit organization which in the previous year had a profit of 398.168,43 euros to 1.327.228,08 euros (included) -subject to an audit insight. Financial statements of a non-profit organization which in the previous year had total revenue higher than 1.327.228,08 euros - subject to the audit.

(Source: Adopted to the NPOs Legal Regulation in North Macedonia and Croatia)

In North Macedonia, NPOs follow the double-entry accounting type, where the financial transactions are recorded using debit and credit entries. The recognition of revenues and expenses is based on the modified accrual accounting principle. Under this principle, reciprocal revenues (revenues based on delivered goods and services) are recognized in the reporting period to which they relate, regardless of collection. Un-reciprocal revenues (revenues from special regulations, membership fees, grants, contributions, and similar sources) are recognized in the reporting period if they are available (collected) during that period. Donations related to contracted programs are recognized as postponed revenue and proportionally as revenues based on the costs of program implementation. Expenses are recognized in the reporting period to which they relate, regardless of payment. The assessment of balance sheet positions also follows the modified accrual accounting principle. The financial statements prepared by non-profit organizations in Macedonia include the balance sheet, income and expenses statement, and notes to the financial statements.

In Croatia, non-profit organizations generally follow the double-entry bookkeeping principle. However, as an exception, a legal representative of a non-profit organization may decide to maintain simple-entry bookkeeping and apply the cash accounting principle if certain conditions are met regarding the value of assets and annual income. The recognition of revenues and expenses in Croatia is based on the accrual accounting principle. Reciprocal revenues are recognized in the reporting period, measurable irrespective of collection, while un-reciprocal revenues are recognized if they are available (collected) within the reporting period. Donations related to contracted programs are recognized as postponed revenue and proportionally as revenues based on the costs of program implementation. Expenses are recognized in the reporting period, irrespective of payment. The assessment of balance sheet positions also follows the accrual accounting principle. The financial statements for non-profit organizations in Croatia vary based on the accounting type used. For those using double-entry bookkeeping, the financial statements include the balance sheet, income and expenses statement, and notes. For those using simple-entry bookkeeping, the financial statements consist of an annual financial statement on receipts and expenditures and accompanying notes. Non-profit organizations meeting specific profit and revenue thresholds are subject to an audit of their annual financial statements, and the financial statements must be published in the Register of Non-Profit Organizations. Additionally, special reporting requirements include the financial plan and a report on the spending of budget funds.

5. CONCLUSION

The research entails a thorough investigation into the legal frameworks, taxation policies, and accounting practices governing NPOs in North Macedonia and Croatia. The paper aims to uncover noteworthy parallels and distinctions between the two countries, shedding light on their respective approaches to NPO governance.

In North Macedonia, the legal framework is governed by the Law on Associations and Foundations, which regulates the establishment, registration, and termination of NPOs. Additionally, the Law on Accounting for Non-Profit Organizations provides guidelines for accounting management, recognition of income and expenses, and financial reporting. The taxation system in North Macedonia exempts certain NPOs from profit tax if their income is derived from specific sources such as membership fees, donations, and government budgets. However, NPOs engaging in economic activities may be subject to total income tax at a rate of 1% if their annual income exceeds a specified threshold.

On the other hand, in Croatia, the Law on Associations regulates the legal status, registration, and operation of NPOs. Non-profit organizations that engage in economic activities with potential market advantages are required to register as taxpayers. Profit tax may be applicable based on the income generated from economic activities, while value-added tax (VAT) obligations depend on the value of goods and services provided. The tax rates for profit tax range from 10% to 18%, and the standard VAT rate is 25%.

Regarding accounting practices, both countries predominantly follow the double-entry bookkeeping principle, although simplified bookkeeping options are available under certain conditions. In North Macedonia, modified accrual accounting principles are employed for recognizing revenues and expenses and assessing balance sheet positions. In Croatia, the accrual accounting principle is applied for revenue and expense recognition, and the assessment of balance sheet positions aligns with the accrual accounting principle as well.

Financial statements play a crucial role in both countries for NPOs' reporting obligations. In North Macedonia, NPOs that adopt double-entry bookkeeping prepare balance sheets, income and expense statements, and accompanying notes. Those following simplified bookkeeping maintain annual financial statements on receipts and expenditures. In Croatia, NPOs utilizing double-entry bookkeeping produce balance sheets, income and expense statements, and notes to financial statements. NPOs with simplified bookkeeping provide an annual financial statement on receipts and expenditures along with accompanying notes.

This comparative analysis sheds light on the complexities and nuances surrounding the legal, taxation, and accounting aspects of NPOs in North Macedonia and Croatia. It underscores the need for NPOs to navigate and comply with the specific regulations governing their operations in each country.

REFERENCES

Ballantine, J., Forker, J., and Greenwood, M. (2007). "Earnings Management in English NHS Hospital Trusts", *Financial Accountability and Management*, vol. 23, no. 4, pp. 421-440, https://doi.org/10.1111/j.1468-0408.2007.00436.x

Bergstresser, D., and Philippon, T. (2006). “CEO incentives and earnings management”, *Journal of Financial Economics*, vol. 80, no 3, pp. 511-529 https://doi.org/10.1016/j.jfineco.2004.10.011

Calabrese, T., D. (2011). “Do Donors Penalize Nonprofit Organizations with Accumulated Wealth?” *Public Administration Review*, vol. 71, no.6 https://doi.org/10.1111/j.1540-6210.2011.02420.x

Chava, S., and Purnanandam, A. (2010). “Is Default Risk Negatively Related to Stock Returns?” *The Review of Financial Studies*, vol. 23, no. 6, pp. 2523–2559, https://doi.org/10.1093/rfs/hhp107

Connolly, C. and Hyndman. N. (2004). “Performance reporting: a comparative study of British and Irish charities.” *The British Accounting Review*. vol. 36, no. 2, pp. 127-154. https://doi.org/10.1016/j.bar.2003.10.004

Cordery, C., J. and Baskerville, R. F. (2007). “Charity Financial Reporting Regulation: A Comparative Study of the UK and New Zealand”. *Accounting History*, vol. 12, no. 1, pp. 7-27 doi: 10.1177/1032373207072806

Dechow, P., and Dichev, I., D. (2002). “The quality of accruals and earnings: The role of accrual estimation errors”. *The Accounting Review* (Supplement)

Dechow, P., and Skinner, D. (2000). “Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators,” *Accounting Horizons*, vol. 14, no. 2, pp. 235-250. http://dx.doi.org/10.2308/acch.2000.14.2.235

DuCharme, L. L; Malatesta, P. and Sefcik, S., E. (2004). "Earnings Management, Stock Issues, and Shareholder Lawsuits". *Journal of Financial Economics,* vol 71, no. 1, pp. 27-49 doi: 10.1016/S0304-405X(03)00182-X

Friedlan, J., M (1994). "Accounting Choices of Issuers of Initial Public Offerings", *Contemporary Accounting Research*, vol. 11, no. 1. https://doi.org/10.1111/j.1911-3846.1994.tb00434.x

Gaver, J. J., Gaver, K. M. and Austin, J. R. (1995). "Additional evidence on the association between income management and earnings-based bonus plans". *Journal of Accounting and Economics*, vol. 19, no. 1. https://doi.org/10.1016/0165-4101(94)00358-C

Godfrey, J. M., and Koh, P.S. (2003). "The association between firms' public finance issues and earnings management". *Accounting Research Journal*, vol. 16, no. 2, pp. 102 - 116.

Guidry, F., Leone, J., A., and Rock, S. (1999). "Earnings-based bonus plans and earnings management by business-unit managers" *Journal of Accounting and Economics*, vol. 26, no. 1-3, pp. 113-142

Healy, P.M. and Wahlen, J.M. (1999). "A Review of the Earnings Management Literature and Its Implications for Standard Setting". *Accounting Horizons*, vol 13, pp. 65-383. http://dx.doi.org/10.2308/acch.1999.13.4.365

Helmig, B., Jegers, M., and Lapsley, I. (2004). "Challenges in Managing Nonprofit Organizations: A Research Overview". *International Journal of Voluntary and Nonprofit Organizations* vol. 15, no. 2, pp.101-116 doi: 10.1023/B:VOLU.0000033176.34018.75

Herzlinger, R.E. and Sherman, H.D. (1980). "Advantages of fund accounting in „nonprofits‟. *Harvard Business Review*, pp.94-105

Jaggi, B., and Lee, P. (2002). "Earnings Management Response to Debt Covenant Violations and Debt Restructuring". *Journal of Accounting, Auditing and Finance*, vol. 17, no. 4. doi: 10.1177/0148558X0201700402

Jegers, M. (2011). On the capital structure of non-profit organisations: A replication and extension with Belgian data. *Financial Accountability & Management*, vol. 27, no. 1, pp. 18–31.

Jegers, M. (2013). "Do Nonprofit Organisations Manage Earnings? An Empirical Study", *International Journal of Voluntary and Nonprofit Organizations,* vol. 24, no. 4. doi: 10.1007/s11266-012-9291-z

Jegers, M., & Verschueren, I. (2006). On the Capital Structure of Non-Profit Organisations : an Empirical Study for Californian Organisations. Financial Accountability & Management, 22, 309–329. https://doi.org/10.1111/j.1468-0408.2006.00428

Jones, C, and Roberts, A., A. (2006). "Management of financial information in charitable organizations: The case of joint cost allocations". *The Accounting Review*, vol. 81, no. 1, pp. 159-178.

Keating, K., E., Parsons, M., L., and Roberts, A., A. (2008). "Misreporting Fundraising: How Do Nonprofit Organizations Account for Telemarketing Campaigns?", *The Accounting Review*, vol. 83, no. 2, pp. 417-446

Khumawala, S. (2005), "Corruption on the global front: symposium introduction", *Journal of Public Budgeting, Accounting & Financial Management,* vol. 17, no. 3, pp. 311-312. https://doi.org/10.1108/JPBAFM-17-03-2005-B003

Klein, A., (2002). "Audit committee, board of director characteristics, and earnings management". *Journal of Accounting and Economics,* vol. 33, no. 3, pp. 375-400 https://doi.org/10.1016/S0165-4101(02)00059-9

Krishnan, R., Yetman, H., M., and Yetman, J., R. (2006). "Expense Misreporting in Nonprofit Organizations", *The Accounting Review,* vol. 81, no. 2, pp. 399-420

Leone, J., A., and Van Horn, L. (2005). “How Do Nonprofit Hospitals Manage Earnings?”. *Journal of Health Economics*, vol. 24, no.4, pp. 815-837 doi: 10.1016/j.jhealeco.2005.01.006

Leuz, C., Nanda, D., and Wysocki, D., P. (2002). “Earnings Management and Investor Protection: An International Comparison”. *Journal of Financial Economics*, vol. 69, no. 3, pp. 505-527 doi: 10.1016/S0304-405X(03)00121-1

Mahdi, S., Rostami, V., and Abdolkarim, M. (2010). “Usefulness of Accounting Information System in Emerging Economy: Empirical Evidence of Iran”. *International Journal of Economics and Finance*, vol. 2, no. 2. doi: 10.5539/ijef.v2n2p186

Modigliani, F., & Miller, M. (1958). “The Cost of Capital, Corporation Finance and the Theory of Investment”, *The American Economic Review*, vol. 68, no. 3, pp. 261–297. https://doi.org/10.4013/base.20082.07

Monsen, N. (2009). “Accounting for nonprofit organizations: A case study of a housing cooperative” (Working paper)

Myers, S. C. (1984). “The Capital Structure Puzzle”, *The Journal of Finance*, vol. 39, no. 3, pp. 574–592. https://doi.org/10.1111/j.1540-6261.1984.tb03646

Myers, S. C., & Majluf, N. (1984). “Corporate financing and investment decisions when firms have information that investors do not have”, *Journal of Financial Economics*, vol. 15, no. 2, pp. 81–102. https://doi.org/10.1016/0304-405X(84)90023-0

Myung Seok, P., and Taewoo P. (2004). “Insider sales and earnings management”. *Journal of Accounting and Public Policy*, vol. 23, no. 5, pp. 381-411 doi: 10.1016/j.jaccpubpol.2004.07.003

National Council of Nonprofits. (2021). “Financial Transparency and Public Disclosure Requirements”, available online at: https://www.councilofnonprofits.org/running-nonprofit/ethics-accountability/financial-transparency-and-public-disclosure-requirements

Omer, C., T., and Yetman, J., R. (2003). “Near Zero Taxable Income Reporting by Nonprofit Organizations”, *Journal of the American Taxation Association*, vol. 25, no. 2. doi: 10.2308/jata.2003.25.2.19

Patton, M., J. (1992). “Accountability and governmental financial reporting”. *Financial Accountability & Management*. vol. 8, no. 3, pp. 165-180 https://doi.org/10.1111/j.1468-0408.1992.tb00436.x

Saleh, M., N., and Ahmed, K. (2004). “Earnings management of distressed firms during debt renegotiation”, *Accounting and Business Research*, vol. 35, no. 1. pp. 69-86 https://doi.org/10.1080/00014788.2005.9729663

Schipper, K. (1989). “Commentary on Earnings Management”. *Accounting Horizons*, vol. 3, pp. 91-102.

Sivakumar, K., and Waymire, G. (2003). “Enforceable Accounting Rules and Income Measurement by Early 20th Century Railroads”, *Journal of Accounting Research*, vol. 41, pp. 397-432. https://doi.org/10.1111/1475-679X.00110

Smith, G. P. (2012). “Capital Structure Determinants for Tax-Exempt Organisations: Evidence from the UK”, *Financial Accountability and Management*, vol. 28, no. 2. https://doi.org/10.1111/j.1540-6288.2010.00274

Teoh, H., S.; Welch,I., and Wong, T., J. (1998). “Earnings Management and the Long-Run Market Performance of Initial Public Offerings”. *The Journal of Finance*, vol. 53, no. 6, pp. 1935-1974 . https://doi.org/10.1111/j.1911-3846.1994.tb00434.x

Trussel, J. (2012). “A comparison of the capital structures of nonprofit and proprietary health care organizations”, *Journal of Health Care Finance*, vol. 39, no. 1, pp. 1–11.

Turner, J. S., Broom, K., Elliot, M., Lee, J., Turner, J. S., Author, C., & Lee, J. (2015). "A Comparison of Capital Structure: The Use of Debt in Investor Owned and Not-For-Profit Hospitals", *Journal of Health Care Finance*, pp. 1–17.

Van Caneghem, T., & Van Campenhout, G. (2012). "Quantity and quality of information and SME financial structure", *Small Business Economics*, vol. 39, no. 2, pp. 341–358. https://doi.org/10.1007/s11187-010-9306-3

Verbruggen, S., and Christiaens, J. (2012). "Do Non-profit Organizations Manage Earnings toward Zero Profit and Does Governmental Financing Play a Role?" *Canadian Journal of Administrative Sciences*, vol. 29, no. 3. https://doi.org/10.1002/cjas.1219

Verbruggen, S., Christaens, J., and Milis, K., (2008). "Earnings Management: a Literature Review", *HUB Research paper*, p. 14.

Vermeer, T., E.; Raghunandan, K., and Forgione, D. (2009). "Audit Fees at U.S. Non-Profit Organizations". *Auditing A Journal of Practice & Theory*, vol. 28, no. 2, doi: 10.2308/aud.2009.28.2.289

Walb, E. (1926). "Die Erfolgsrechnung privater und őffentlicher Betriebe". *Eine Grundlegung. Berlin: Industriverlag Spaeth & Linde.*

Wilson, M., and Shailer, G. (2007). "Accounting manipulations and political costs". *Accounting and Business Research*, vol. 37, no. 4, pp. 247-266, doi: 10.1080/00014788.2007.9663311

Yetman, H., M., and Yetman, J., R. (2011). "The Effects of Governance on the Accuracy of Charitable Expenses Reported by Nonprofit Organizations", *Contemporary Accounting Research*, vol. 29, no 3. https://doi.org/10.1111/j.1911-3846.2011.01121.x

Yetman, Robert and Omer, and Thomas C. (2001). "Taxable Income Management by Nonprofit Organizations". Available online at SSRN: https://ssrn.com/abstract=294748 or http://dx.doi.org/10.2139/ssrn.294748