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# Analysis of the accounting law of non-profit organizations in Republic of North Macedonia-Challenges and Recommendations

Blagica Koleva<sup>1</sup>, Mila Mitreva<sup>2</sup>

<sup>1</sup>Department of Accounting and Auditing, Faculty of Economics, University Goce Delcev, N. Macedonia

<sup>2</sup>Department of Finance, Faculty of Economics, University Goce Delcev, N. Macedonia

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## Abstract

Non-profit organizations are obliged to keep accounts, compile and submit accounting statements in accordance with the law and accepted accounting principles, accounting practices and accounting standards. The main aim is to create accurate, reliable and up-to-date statements of balance positions, both the assets and liabilities, sources of funds, income and expenses and the results of operations. The law on accounting of non-profit organizations regulates the keeping of accounts, business books, accounting documents and data processing, recognition of income and expenses, assessment of balance sheet positions, submission of financial statements and other issues related to accounting. Additionally, non-profit organizations are obliged to keep accounting according to the system of double-entry accounting and according to the schedule of accounts from the accounting plan for non-profit organizations. The law on accounting of non-profit organizations prescribes the accounting principles and rules, as well as the content of the basic financial information that is disclosed by civil organizations to interested parties. The purpose of this paper is the analysis of the law on accounting of non-profit organizations. In addition to the legal framework, this analysis also includes research through the form of a survey questionnaire as well as direct interviews with relevant representatives regarding the application of the law. The analysis provides a detailed overview of the current legal regulations, as well as recommendations for their revision. The subject of the paper is the management of accounting, business books, accounting documents and data processing, financial statements, as well as other issues related to the accounting of non-profit organizations.

*Keywords:* accounting, law, non-profit, principles, financial information.

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## 1. Introduction

Nonprofit organizations (NPO) are very important part of any country. They help with the development of societies and are also very beneficial for the governments. In this context, nonprofit organizations can be defined as organizations that provide assistance to individuals or groups, rather than focusing on obtaining financial gains for them. In addition, the main difference with commercial organizations is the fact that commercial organizations are aiming their work towards achieving business profits, while NPOs strive towards providing public benefits (Jin, 2010). Moreover, when it comes to accounting procedures that NPOs use, there are also some differences with the commercial organizations. The law on accounting of non-profit organizations prescribes the accounting principles and rules, as well as the content of the basic financial information that is disclosed by civil organizations to interested parties. The law regulates the legal framework on the basis of which it is reported to the competent state authorities. Considering that the law has been in operation for 15 years, there is a need to analyze whether the existing legal solutions are the most appropriate according to the functions and development of the non-profit sector to date. In addition, in the previous period since the application of the law, various criticisms could often be heard, primarily from the people themselves, regarding whether the law fulfills its function, but somehow it could not be materialized into concrete points, which are the points that should be addressed for improvement. In this context, Non-profit organizations are obliged to keep accounts and compile and submit accounting statements in accordance to the law. The aim is to provide accurate, comprehensive and up-to-date statements of their balance sheet positions, their sources of funds and their income and expenses. However, designing a system of comprehensive financial reporting is a challenge precisely because of the specifics of the non-profit sector. A basic characteristic in the operation of non-profit organizations is the achievement of goals of wider social interest. The activities of the non-profit sector complement or are related to the operations of the business community, public institutions, and state authorities. Hence, the legal framework, and in particular the Law on Accounting of nonprofit organizations, should enable the correct addressing of these issues to the greatest extent possible, i.e. the standard forms of financial reporting and an accounting system based on the principles of the Law, should together provide quality financial information for the presentation to financiers. On the other hand, it is necessary to complement the financial reporting with a narrative part precisely because the results of the operation of non-profit organizations often cannot be quantitatively measured. However, it is also worth mentioning that non-profit organizations are very important for creating sustainable society. In addition, thanks to the public initiative, in most of the developed countries, the importance of non-profit organizations has increased. Hence, in order to understand the origins of the non-profit organizations, several theories have to be understood, such as: *Theory of*

*public goods, contract failure theory, welfare state theory, interdependence theory and social origins theory* (Bartosova and Podhorska, 2021). Undoubtedly, NPOs are very important part for every society, but, their accounting procedures are very important part in their further development. In this context, the aim of this paper is to analyze the accounting of NPOs in N. Macedonia.

## 2. Defining the permanent legal framework

Legal framework refers to the set of legal documents that define the rules, rights, obligations and responsibilities of companies, government and citizens in one country (NSGI, 2015). Therefore, the law on the accounting of non-profit organizations together with the by-laws is part of the legal framework that regulates the non-profit sector in the broadest sense, here the most significant include:

- 1) Law on associations and foundations;
- 2) Law on the Red Cross of the Republic of Macedonia;
- 3) Law on political parties;
- 4) Law on financing of political parties; and
- 5) Law on the legal status of a church, religious community and religious group.

The Law on Accounting of Non-Profit Organizations (hereinafter referred to as the Law) was adopted in 2003, which introduced a legal framework and minimum requirements for accounting, financial reporting and administration of documentation by non-profit organizations. In accordance with the Law, by-laws have also been adopted. Later, with the changes to the Law in 2011 and 2015, only the section on fines, misdemeanor provisions and the threshold for recognition of fixed assets was added, while the essential definitions and provisions that regulate the accounting operations remain unchanged to this day. The basic legal framework defines the types of entities that are subject to accounting and financial reporting based on the Law. Furthermore, the Law prescribes provisions for keeping accounting, business books, accounting documents and data processing, recognition of income and expenses, assessment of balance sheet positions, revaluation, mandatory financial reports and deadlines for submission to competent institutions (Law on accounting for non-profit organizations published in the Official Gazette of the Republic of North Macedonia, no. 24/2003; 154/2015)

## 3. Application of the accounting law to non-profit organizations

Legal entities of a non-profit nature that are established to carry out wider economic, social, cultural, scientific, humanitarian, educational, sports and other purposes, are obliged to keep accounts according to the Law. This includes the following forms of organization:

- Economic interest community;
- Associations of citizens, foundations and other forms of association;
- Political parties;
- Religious communities;
- Religious and other groups;
- The Red Cross of the Republic of Macedonia;
- Associations of foreigners;
- Foreign and international non-governmental organizations;
- Humanitarian organizations and associations
- Trade unions, and
- Other legal entities established by special regulations from which it follows that they are non-profit organizations.

The provisions of the Law on financial reporting, administration of documentation and way of keeping accounting are uniformly applied to all entities, regardless of the nature of their activities and the volume of financing. Also, there is no division in terms of the mission and the goals for which the organizations were formed. It can be said that the Law on the Accounting of Non-Profit Organizations represents a basic law in the legal framework that regulates the non-profit sector. The law regulates matter that should enable documentation, accuracy and quality of financial information. The financial information obtained on the basis of the accounting entries is further used for the purposes of additional reporting based on special laws and control by state institutions and regulatory bodies. However, the Law on Accounting of Non-Profit Organizations is part of the wider legal framework, that is, a set of Laws that complement each other and together regulate the operation of the non-profit sector. So there are certain issues that are related to accounting work, and are defined by laws that govern certain types of organizations, that is, entities (Law on accounting for non-profit organizations published in the Official Gazette of the Republic of North Macedonia, no. 24/2003; 154/2015).

The broader legal framework prescribes additional reports and disclosure of data by certain types of non-profit organizations under a separate law. In addition, a special law regulates the tax incentives for donations and sponsorships in public activities, the criteria for using them and the inspection control and supervision. For example, the Law on financing of political parties provides for a separate annual report of the political party as a supplement to the standard package of financial reports prescribed by the Law on the accounting of non-profit organizations. The special annual financial report enables a more detailed and analytical presentation of income and expenses by type, with the aim of enabling more transparency and accountability. Furthermore, for political parties, an additional notification is prescribed, which includes a specification of the income and expenses of a transaction account from an election campaign, as well as a notification of the costs of renting advertising space in an election campaign. Also, associations and

foundations that have acquired the status of public interest, according to the Law on Associations and Foundations, have special obligations for financial reporting. The organization with the status of public interest is obliged to submit a business and financial report on its work to the Government of the Republic of N.Macedonia once a year. The special notification of the Associations and foundations of public interest includes a section on the Business operations of the year, where information regarding the activity, the level of activity, the organizational structure, human resources, the mission and activities of the organization, the available budget, transparency and accountability are disclosed in a narrative manner.

The second part refers to financial operations, where, similarly to the case of political parties, associations and foundations of public interest require a detailed and analytical presentation of expenses and income by type. In the area of controls, special powers are given to the Public Revenue Administration (PRA) in case of using tax incentives from a given donation or sponsorship in accordance with the Law on Donations and Sponsorships in Public Activities. Here the IRS and other competent authorities control the giving, receiving and use of the donation and sponsorship in cases of application of tax incentives. If the IRS or another competent authority determines irregularities and abuses in the use of the donation and sponsorship, it may file a misdemeanor or criminal report.

Of essential importance for tax controls is the accounting record of all events that cause a financial effect on the non-profit organization, the documentation of transactions and the confidentiality of the accounting information system. All these aspects are regulated by the Law on the accounting of non-profit organizations, which is the basis for the implementation of the provisions of other laws. All non-profit organizations are obliged to keep accounts according to the system of double-entry accounting in the manner prescribed by the law on the accounting of non-profit organizations and are obliged to compile basic financial statements, a balance sheet, a balance sheet of income and expenses and notes to the financial statements for the reporting period, i.e. calendar year. The only exception applies to "micro" non-profit organizations that have property or realize an annual income lower than EUR 2,500, these organizations are exempt from the obligation to keep the accounts according to the double-entry bookkeeping system and to prepare and submit financial reports for the year in question. Non-profit organizations that have an obligation for additional financial reporting pursuant to another Law (Political parties, associations and foundations with public interest status) report additionally based on that Law. There is equal application of the law for domestic and foreign non-profit organizations, whereby for the activities carried out on the territory of the Republic of Macedonia, foreign organizations register a legal entity or subsidiary (Law on accounting for non-profit organizations published in the Official Gazette of the Republic of North Macedonia, no. 24/2003; 154/2015).

In this part, the Law on the Accounting of Non-Profit Organizations is harmonized with the Law on Associations and Foundations, which also provides for equal rights during the registration and registration in the Central Register of the Republic of N. Macedonia of an association or foundation founded by domestic and foreign persons, without the existence of any restriction regarding of the nationality or geographical region they come from. Also, there is a specificity regarding the economic interest community which is regulated by the Law on Commercial Companies, whereby the Economic Interest Community (SIZ) can be formed by two or more natural and legal persons in order to facilitate and improve the performance of the commercial activities that constitute the subject of their operation and to increase or improve their result. The subject of the operation of the economic interest community can only be in relation to the commercial activities carried out by the members and can only be an aid to those activities. The SIZ does not make a profit for itself, but if a profit is made as a result of the operation, it is considered a profit of the members of the SIZ and is distributed among them according to the founding agreement or, if there is no agreement, it is divided into equal parts.

Furthermore, the Law on Commercial Companies provides provisions for keeping accounting, commercial books and administration of documentation for traders to whom the Law on Commercial Companies applies. According to the definition given in this Law, a merchant is any person who independently and permanently as an occupation carries out commercial activity for the purpose of making a profit through production, trade and providing services on the market. Since SIZ is primarily a foundation and works with a non-profit character, we believe that the Law on keeping the accounting of non-profit organizations would be applied here instead of the provisions that refer to the accounting operations of commercial companies (Law on accounting for non-profit organizations published in the Official Gazette of the Republic of North Macedonia, no. 24/2003; 154/2015).

In order not to create confusion in the practice resulting from the interaction between the two Laws, the law on commercial companies should be supplemented with a provision that stipulates that "The economic interest community keeps accounting and business books based on the Law on Accounting of Non-Profit Organizations". Although the economic community of interest among the wide group of non-profit organizations has the most pronounced profit component, provided for by the Law on Commercial Companies, the primary goal of establishment and operation should be taken into account, which is the promotion and affirmation of the activity of its members. This is a broader goal, which does not include the market performance of the economic interest community itself. While at the secondary level, the possibility of SIZ making a profit from certain activities is not excluded. What distinguishes the economic interest community from other associations and foundations is the possibility of distributing the realized profit between the members. The possibility of making a certain profit also exists with the rest of the associations and foundations, while the associations and foundations are also not established with the primary purpose of making a profit, but they can perform activities that will make them a certain profit, which must derive from the objectives of the operation determined by the statute of the organization and the profit to be used to achieve the goals determined by the statute of the organization. The profit achieved cannot be distributed among the founders, members, directors, employees or any other person related to them (Law on accounting for non-profit organizations published in the Official Gazette of the Republic of North Macedonia, no. 24/2003; 154/2015).



### 3.1 Administrative requirements prescribed by law for accounting of non-profit organizations

The administrative function in non-profit organizations largely depends on the nature of the activity as well as on the form of establishment. Unlike the business sector, in the non-profit sector the priority is usually the social component as well as the realization of the mission and the planned activities, so the results of the operation cannot be fully measured through financial indicators. Finance, administration, and accounting are often considered a secondary function, but nonprofit organizations certainly direct some of their resources to perform these functions. The accounting function should be at the level of the minimum requirements prescribed by the Law. Organizations may establish additional accounting and administrative procedures in order to ensure greater transparency and quality of financial information. This especially applies to non-profit organizations that are regulated by special laws and that are subject to additional financial reports (political parties and associations and foundations with public interest status). Undoubtedly, the accounting system of these organizations should enable additional analytics for the preparation of annual financial reports prescribed by a special law. The decision on how to organize and run the financial operation, including the administration and the accounting part, depends on the requirements of the interested parties, the main donors, the management, the scope of activities as well as the nature of the activity. The law establishes a unified framework in terms of keeping business books, documentation and data processing. Here, to a large extent, precise directions are given, but there are also parts that allow for some flexibility.

### 3.2 Accounting

The basic concept of double-entry accounting is also applied in the non-profit sector, which is a requirement that every transaction be recorded on at least two different accounts with an equal and opposite effect, that is, every accounting event is recorded on at least two accounts from the Chart of Accounts. For example, the payment of overhead expenses is reflected in the financial statements by decreasing the cash account (100) and increasing the expense account (401), inflows from membership fees cause an increase in the cash account (100) and a simultaneous increase in dues income on account (730) etc. Furthermore, it is prescribed that non-profit organizations keep accounting, compile and submit accounting statements in accordance with the Law on the accounting of non-profit organizations and with the accepted accounting principles, practice and accounting standards if they do not contradict the Law or another regulation, with the aim of accurate, a true, reliable, comprehensive, timely, up-to-date and individual statement of the balance sheet positions, the balance of assets, liabilities, sources of funds, income and expenses and results of operations. This broad definition makes it possible to additionally rely on the IFRS framework if accounting events arise in practice that are not specifically covered by the Law on Accounting of Non-Profit Organizations, especially IFRS for Small and Medium Enterprises, as long as a certain accounting treatment resulting from a reading of IFRS standards do not contradict the provisions of the Law on Accounting of Non-Profit Organizations and its by-laws Rulebook on accounting for non-profit organizations published in the Official Gazette of the Republic of Macedonia no. 42/2003....175/2011).

### 3.3 Business books, accounting documents and data processing

Non-profit organizations are obliged to keep business books in accordance with the provisions of this law, the accepted standard accounting practice and accounting standards. Uniform records and other forms of records are provided through the business books, which provide insights into the state and movements of assets, liabilities, sources of assets, income, expenses and the result of operations. Non-profit organizations keep records of income and expenses, prepare plans, reports and analyses. The data from the business books should enable the competent authorities to plan and execute the income, prepare and adopt the financial plans and for other purposes.

Non-profit organizations keep business books in the Macedonian language, with Arabic numerals and values expressed in Denars. If abbreviations, codes, signs or symbols are used, their meaning must be clearly explained. All data registered in business books and other reports must be complete and complete, timely, updated and presented chronologically, that is, accurately reflect the time sequence of their occurrence. Registered data in the business books must not be changed or supplemented in a way that will later make it impossible to determine the originally registered content.

Business books of non-profit organizations are: journal, general ledger and auxiliary books (analytical records). Mandatory auxiliary books are: book for the treasury, book for purchases, book (inventory) of capital assets-fixed assets, book of incoming accounts and book of outgoing accounts. In addition to business books, non-profit organizations can keep other auxiliary books (analytical records). The way of keeping business books of non-profit organizations depends on the technique of entering business changes, ie transactions. The technique of data entry and processing of business changes, i.e. transactions of non-profit organizations can be with the help of an electronic calculator, semi-automated data processing and manual data processing, observing the principles of proper accounting. Non-profit organizations are obliged, regardless of the way of keeping and keeping the books, to ensure their availability at all times, to keep and protect them within the period established for this, and must guarantee that they can be presented at any time. The Minister of Finance prescribes the form and manner of keeping the business books of non-profit organizations. Data entry in the business books of non-profit organizations must be based on reliable, true and orderly accounting documents. An accounting document is a written proof of the business change, that is, a transaction (Rulebook on the content of separate accounts in the accounting plan of non-profit organizations published in the Official Gazette of the Republic of Moldova no. 117/2005).

Furthermore, the recognition of income and expenses of non-profit organizations is carried out according to the accounting principle of modified occurrence of business changes, ie transactions. Revenues should be recognized in the accounting period in which they occurred according to the criterion of measurability and availability. Income is measurable when it can be expressed in value. Revenues are available when they are realized in the accounting period or within 30 days after the end of the accounting period, provided that the revenues refer to the accounting period and serve to cover the obligations of that accounting period. Expenses should be recognized in the accounting period in which they occurred or within 30 days after the end of the accounting period, provided that the obligation to pay arose in that accounting period. Materials inventory items are expensed at cost. The purchase price consists of the purchase price, increased by import duties, value added tax, transportation expenses and all other expenses that can be directly added to the purchase price, i.e. to the purchase costs, reduced by discounts and rebates.

### **3.4 Assessment of balance sheet positions, revaluation and inventory**

Under the assessment of balance positions, in the sense of this law, it is understood the determination of the value of separate balance positions. Non-profit organizations are obliged to carry out the assessment of balance positions contained in the general ledger according to the accounting principle of modified occurrence of business changes, ie transactions. Long-term and short-term assets are stated at cost. The purchase value of long-term and short-term assets consists of the purchase price increased by import duties, value added tax, transportation expenses and all other expenses that can be directly added to the purchase value, that is, to the purchase costs. The cash in the treasury and in the accounts in domestic currency are entered in the general ledger in a nominal amount, and in foreign currency according to the rate of the National Bank of the Republic of Macedonia on the day of the balance. The balance sheet positions of receivables and payables are recognized according to the agreed amounts in the contract. Non-profit organizations are obliged to revalue long-term assets, in a manner prescribed by the Minister of Finance. Non-profit organizations are obliged at least once a year to reconcile the state of assets and their sources stated in the accounting with the actual state determined by an inventory on December 31, in a manner prescribed by the Minister of Finance.

Non-profit organizations are obliged to compile basic financial reports, namely: balance sheet, income and expenditure balance and notes to the financial statements. The balance sheet shows the balance of assets, liabilities and sources of funds as of a certain date. The income and expenditure balance sheet shows the income and expenditure, i.e. the surplus or deficit realized in the business year or in some other period during the business year. The notes to the financial statements represent a detailed elaboration and addition of the data from the balance sheet and from the income and expenditure balance sheet. Basic financial statements must provide an accurate, true, and complete overview of assets, liabilities, sources of funds, and income and expenses. Non-profit organizations whose total property value or annual income is less than 2,500 euros in Denar equivalents are not obliged to compile financial reports and submit them in accordance with the provisions of this law. Non-profit organizations are obliged to submit their annual accounts to the Public Revenue Administration and to the Register of Annual Accounts at the Central Registry by the end of February of the following year, that is, within 60 days from the date of the status change (Rulebook on the accounting plan and balance sheets of non-profit organizations published in the Official Gazette of the Republic of Moldova no. 08/09; 11/2006; 117/2005).

## **4. Empirical analysis**

As part of the analysis, a sample of representatives of the non-profit sector was surveyed. Respondents expressed their views by answering a questionnaire. Respondents from 70 different organizations gave their comments on questions related to the practical application of the Law on Accounting of Non-Profit Organizations, identifying potential shortcomings. The structure of the sample is shown in the graphs below.

In Figure 1 are presented the answers from the first question in the survey: 'Apart from the basic sources of financing (donations, grants, and sponsorships) do you earn income from economic activity?' Therefore, it can be concluded that according to the funding sources, 53 organizations realize financial inflows exclusively from donations, grants, aid or other forms of unilateral transfers. While 17 of them earn additional income from providing goods and services. Additional income usually comes from activities related to renting space, conducting courses, workshops, consulting services, selling products made by members of the organization, etc. In the non-profit sector, most of the income is received based on donations, sponsorships and aid (unilateral transfers), by their economic essence, these inflows do not represent income from performing activities. Therefore, the income from donations, sponsorships, grants, membership fees, as well as funds received from the Budget of the Republic of Macedonia, the budgets of the municipalities, given for realizing certain programs and goals determined in accordance with the statute and the program, are not subject to taxation with a tax on gain. The Law on Donations and Sponsorships in Public Activities also prescribes additional tax incentives. In addition, the organizations that realize incomes from performing activities should be able to prove that these incomes are used for the performance of the basic goal and mission. Hence, the expenditure side is also significant, i.e. accounting records of expenses by types, from which it will be possible to determine their expediency. Cost analysis is also important for financial/tax control, in order to determine whether the organization is using the additional income for the purposes of achieving its mission or if possible hidden profit payments have occurred. Bearing in mind that citizens' associations and foundations do not have the possibility of paying profits to their founders.

Additionally, in Figure 2 are presented the answers from the second question: 'Have you submitted financial statements for inspection at the request of state institutions (except, if applicable, the regular submission of final accounts), donors and other interested parties?' Hence, the high percentage (50%) of non-use of mandatory financial statements indicates that organizations spend additional resources on financial analysis and auditing, which in certain cases could be avoided if there was a comprehensive



financial reporting framework. This leads to the conclusion that the current forms for submitting the annual account are not sufficiently clear and precise and do not allow interested parties to obtain adequate and sufficient information if they were to analyze them. Most often, donors or other interested parties hire auditors or other professionals to rely on the data in the financial statements. Taking into account the specifics of the non-profit sector, whose results often do not have quantitative content, the need for a narrative presentation of the achieved goals for the year is imposed. Adding this information to financial reporting increases the level of quality, relevance and transparency of financial reporting. The high percentage (50%) of non-use of mandatory financial statements indicates that organizations spend additional resources on financial analysis and auditing, which in certain cases could be avoided if there was a comprehensive financial reporting framework.

Figure 1. Responses from the first question

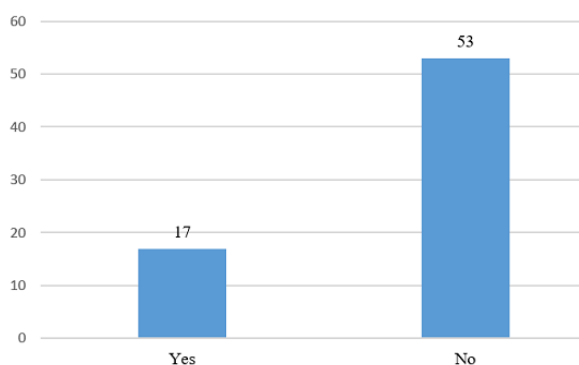
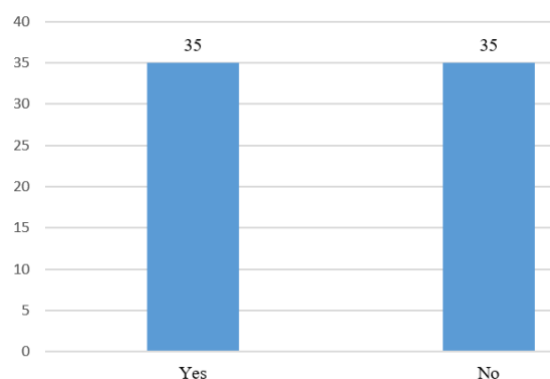


Figure 2. Responses from the second question



Source: Author's calculations

In Figure 3 are presented the answers from the third question: 'Are the minimum requirements for accounting and financial reporting prescribed by the Law on Accounting of Non-Profit Organizations and by-laws sufficiently clear?' Hence, regarding the general evaluation of the Law on Accounting of Non-Profit Organizations, 11 organizations responded that they have no objections to the existing legal solutions, 49 stated that the existing legal solutions are sufficiently clear, and 10 of the organizations responded that they are not satisfied with the legal solution. Organizations are sufficiently familiar with the legal framework, but these results show that there are issues that cause hesitation and uncertainty. Many of these questions are already covered in the text of this study. Also, the study should provide a basis for further discussion between organizations, stakeholders and competent institutions for the improvement of the legal framework and the implementation of laws and by-laws.

Furthermore, In Figure 4 are presented the answers from the fourth question: 'Does the application of the provisions of the Law enable transparent financial reporting?' When asked whether the provisions of the Law on Accounting of Non-Profit Organizations enable transparent financial reporting, 18 organizations answered that they have no objections to the existing legal solutions, 49 of the organizations, as in the previous question, stated that the existing legal solutions sufficiently enable transparent financial reporting and yet only 3 of the organizations that responded to the questionnaire do not consider that the existing law enables transparent financial reporting.

According to the given answers to this question, it can be concluded that, just as in the previous question, the existing legal requirements should undergo certain changes in order to adjust them in order to contribute to more transparent financial reporting. The issue of transparency is of crucial importance in attracting new funds and sources of financing as well as in the efficiency of financial and tax controls. By increasing transparency, confidence in the mission and the achieved results is raised, and thus the organization increases its capacity to absorb new financial resources.

Although 70% of the respondents answered that applying the provisions of the Law sufficiently enables transparent financial reporting, raising the degree of transparency and disclosure of financial information goes in favor of strengthening the capacities of the non-profit sector. Especially considering that in this sector there are no elements of market competition, so the disclosure of financial information on a wider scale will not adversely affect the results of the operation.

Figure 3. Responses from the third question

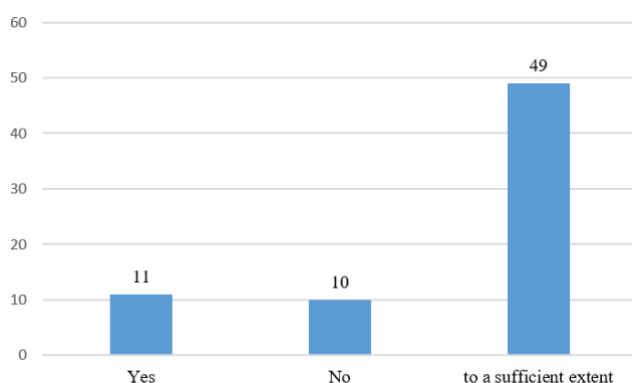
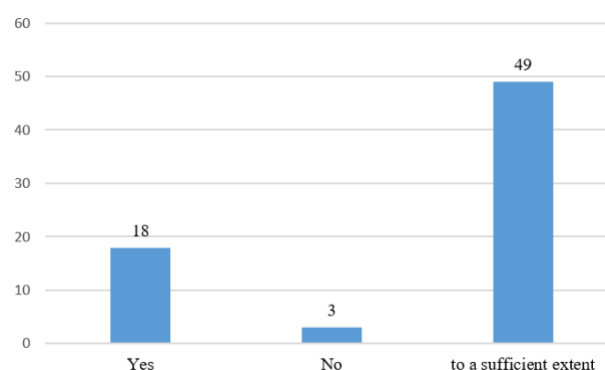


Figure 4. Responses from the fourth question



Source: Author's calculations

In Figure 5 are presented the answers from the fifth question: 'Are you obligated to a final account, according to Article 18, paragraph 1 of the law?' Thus, 61 organizations answered that they are obliged to submit a final account, and the remaining 9 that they do not have such an obligation. These 9 organizations that answered that they are not obliged to submit a final account meet the condition stated in Article 18, paragraph 1 and have revenues less than 2,500 euros. This can be seen from the review earlier where the data on the structure of the respondents is listed.

In the following Figure 6, are presented the answers from the sixth question: 'Do you use external accounting?' When asked whether the organization uses external accounting or has an organized accounting service within the organization itself, 53 of the organizations answered that they use the services of an external accounting company that keeps their accounting records and prepares the annual account, 10 answered that they have an organized accounting service in the organization itself, and 7 did not provide data.

Figure 5. Responses from the fifth question

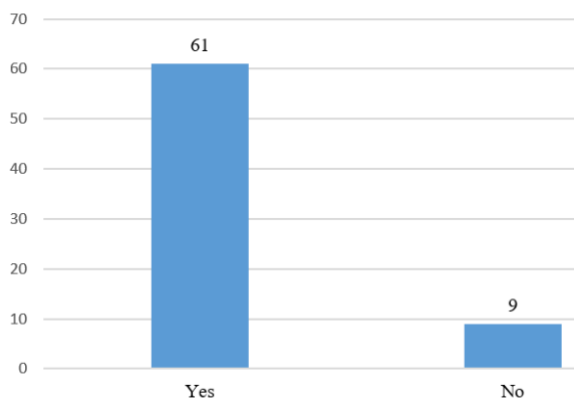
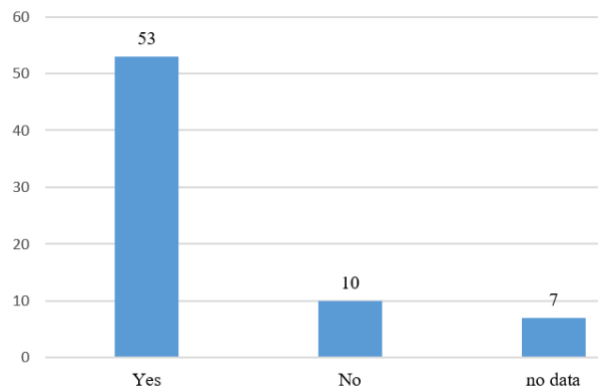


Figure 6. Responses from the sixth question



Source: Author's calculations

The seventh question 'Are there certain parts of the Law on Accounting of Non-Profit Organizations and by-laws that create confusion in application?' and its answers are presented in Figure 7. When asked whether certain parts of the Law on Accounting of Non-Profit Organizations and other by-laws create confusion in their application, 31 of the organizations answered affirmatively. That suggests that during their work they faced confusing parts of the Law and by-laws, 32 of the organizations believe that the existing legal regulations are in order and that there is no confusion during their application, and seven of them did not submit data. According to the above, we would conclude that it is necessary to conduct additional training for accountants in order to resolve the dilemmas surrounding the principle of modified occurrence of business changes, i.e. transactions, in order to resolve the dilemmas and misunderstandings that arise from its application.

In Figure 8 are presented the answers from the eighth question: 'Are there certain requirements in the legal framework, which in your opinion unnecessarily complicate accounting and the preparation/submission of financial statements?' When asked whether there are sections in the existing legal regulations that unnecessarily complicate the keeping of business books and the preparation of financial statements, 25 of the organizations answered affirmatively. That is that during their operations they were faced with sections of the Law and by-laws that they consider problematic when conducting accounting and preparation of financial reports, 38 of the organizations consider that the existing legal regulations are in order and that there are no provisions that they consider inexpedient, while seven of them did not submit data. Most often, the following are the parts of the existing legal regulations that organizations consider unnecessary and make it difficult to manage accounting and the preparation of financial statements.

The volume and inaccuracy in the items of the existing forms for submitting the final account, the preparation of additional forms for statistics, the method of records and calculation of revaluation of long-term assets and the need that arises from the calculation of revaluation of long-term assets. Additionally, the provision for keeping accounting according to the principle of modified occurrence of business changes, i.e. transactions, the absence of a special form for a tax balance, which creates confusion during its filling.

Figure 7. Responses from the seventh question

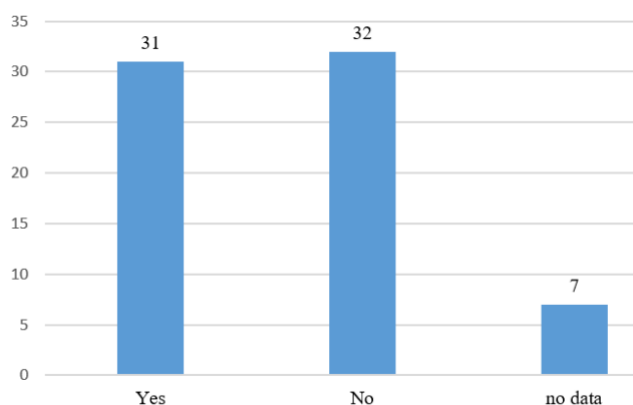
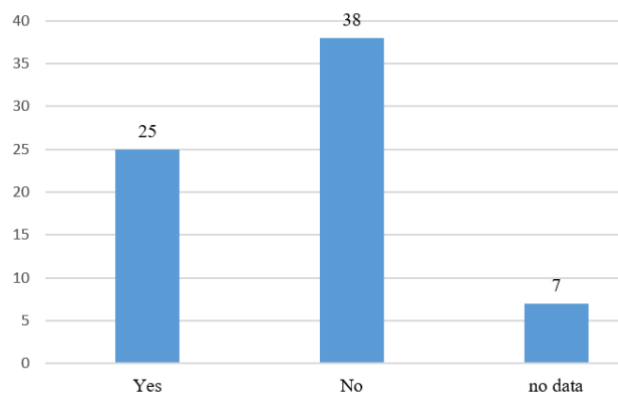


Figure 8. Responses from the eighth question



Source: Author's calculations

#### 4.1 Recommendations

The legal framework that governs the matter of accounting and accounting operations of non-profit entities in the Republic of N. Macedonia has already been established. Hence, through the analysis of the legal provisions, we can formulate the main conclusions and recommendations for further improvements and revision of certain provisions, with the aim of adapting the legal framework to the real conditions and needs in the non-profit sector. Therefore, the recommendations can be summed up in the following way:

- Formulating additional guidelines for improving administrative requirements and the way of keeping accounting;
- Adoption of a new by-law on the content and form of the Accounting Plan;
- Abolition of the obligation for annual revaluation of long-term assets;
- Narrative section and explanatory notes as a supplement to the financial statements;
- Recognition of fixed assets according to management's expectations for the future use of a particular asset and the anticipated future uses;
- Precise definition of criteria for determining "micro" non-profit organizations, which are not obliged to submit a final account;
- Prescribing criteria for determining large non-profit organizations, as well as the obligation to audit financial statements for large organizations;

#### 5. Conclusion

The non-profit sector in N.Macedonia is of exceptional importance for the overall development of society. Therefore, the creation of an enabling environment in which some kind of sustainability of civil society organizations will be realized will depend primarily on the capacity to attract funds, especially fundings from abroad. Hence, the administrative function is of great importance in terms of presenting the financial picture of the organization as well as enabling transparency in reporting. The role of the Law on the Accounting of Non-Profit Organizations and its by-laws is to set a framework for financial reporting and processing of accounting documents to ensure efficient, accurate and timely financial information, and this undoubtedly serves the development of the sector. In the analysis of the Law on the Accounting of Non-Profit Organizations, the entities subject to the obligation to keep accounting and financial reporting, the administrative requirements and principles for the way of keeping accounting, the prescribed rules for recognition of assets, liabilities, sources of funds, income, etc. Financial reporting and the accounting procedures are also integral; part of the non-profit organizations, although their primary focus ate not the finances. Therefore, establishing an enabling environment for NPOs to adhere to legal requirements and thrive will undoubtedly foster the growth of organizations that operate in such a manner. As a result, the impact will be advantageous for society as a whole.

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