



# LEARNING MATERIALS FOR FDI ADVISORS

**BOOSTING EU ECONOMY THROUGH TRAINING OF FOREIGN DIRECT INVESTMENT (FDI) ADVISORS**

**SPODBUJANJE GOSPODARSTVA EU PREK USPOSABLJANJA SVETOVALCEV NEPOSREDNIM TUJIM INVESTITORJEM**

**POTICANJE EKONOMIJE EU KROZ OSPOSOBLJAVANJE SAVJETNIKA ZA INOZEMNA IZRAVNA ULAGANJA (FDI SAVJETNIK)**

**ΕΝΙΣΧΥΣΗ ΤΗΣ ΟΙΚΟΝΟΜΙΑΣ ΤΗΣ ΕΕ ΜΕΣΩ ΤΗΣ ΚΑΤΑΡΤΙΣΗΣ ΤΩΝ ΣΥΜΒΟΥΛΩΝ ΞΕΝΩΝ ΕΠΙΕΝΔΥΣΕΩΝ - BOOST EU – FDI ΣΥΜΒΟΥΛΟΙ**

**Я Е Р Л И Κ Α**



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## **Manual for mentors**

### **Introduction**

FDI has an essential and growing role in the global economy. According to the OECD, FDI is a key driver of international economic integration and with the right policy framework, it can provide financial stability, promote economic development and enhance societal well-being<sup>1</sup>.

To increase and boost foreign investments, it is crucial to offer an innovative, diverse and investor-friendly environment, and to provide continuous training and education for employees involved in attracting and supporting foreign investors. FDI advisors and other employees in this field should be adequately educated in a wide range of services that are of direct interest to foreign investors: economic and financial issues, legislative requirements and costs related to the opening and operation of a business, the labour market situation, real estate investments and other relevant topics.

### **What is the aim of the Manual for mentors?**

The aim of this Manual is to support learners to develop their professional skills and knowledge to increase their productivity in the field of attracting and supporting foreign investor. More specifically, after reading the Manual, the learners will:

- Acquire new, specialized knowledge and skills
- Develop their role as effective advisors
- Build their capacity to transfer the knowledge to future FDI advisors.
- Identify the needs for further education and development
- Contribute to increasing the national GDP and in the development of new jobs

The Manual covers the following chapters and it is country specific:

1. Opening a company
2. Legislation requirements and costs regarding running the business
3. Accountancy
4. Labour market and employment
5. Work and living permit, family relocation
6. Funding opportunities
7. Real estate investment
8. Basics of counselling and negotiation skills
9. Basics about blended learning
10. Introduction to national vocational qualification system

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<sup>1</sup> OECD (2009), "Foreword", in OECD Benchmark Definition of Foreign Direct Investment 2008: Fourth Edition, OECD Publishing, Paris.



The Manual targets FDI advisors' mentors that have knowledge, skills and competences to provide relevant support and guidance to the future FDI advisors.

### **What is the BOOST EU project?**

“Boosting EU economy through training of Foreign Direct Investment (FDI) advisors” is a program aimed at increasing foreign investments by developing a unique training program, which will equip FDI advisors with all the relevant knowledge, skills and competences needed to provide all-in-one support for internationalization and relocation of foreign investors in one place.

Program objectives:

- To improve quality and access to vocational education and training.
- To improve the knowledge and skills of employees in relevant consulting companies.
- To improve the employability of adult learners.

Based on the extensive international survey, we developed a training program with learning materials for mentors, a training program with learning materials for FDI advisors, and initiatives to include FDI advisors' training program into national educational schemes in Slovenia and Cyprus.

International dimension, ensured by a consortium of partners and other relevant organizations from Slovenia, Croatia and Cyprus, enriches the program by broader overview, comparison and understanding of foreign investors' needs.

For the sake of comprehension and clarity, the text will not use both the male and female forms; the personal nouns and pronouns used throughout the BOOST EU documents will therefore also apply in their female and male form.

The BOOST EU partnership is not responsible for the information and links within this document (created in 2018) that can be changed or removed by the relevant authorities.

## **Module 1: Types, procedures and costs of opening a business**

### **Introduction**

After successful completion of this module, you shall be familiar with the types of companies in Croatia, the procedures when establishing a particular type of business and related costs. You will acquire all the necessary knowledge to give information and lead foreign investors through the process of establishing and registering business entity.

### **Glossary**

Company – legal person which establishment and organization is regulated by Corporations Act

Sole proprietor – natural person who performs business activities in accordance with craft regulations and is enrolled in Court registry as sole proprietor and keeps its books according to the law on accounting.

Entrepreneur – in this chapter: trader, company, sole proprietor, sole trader and other natural person performing self-employed activities, and non-profit organizations.

Sole trader – natural person who performs independent business activities in accordance with craft regulations (craft: carpenter, caterer.....,/ liberal professions: doctor, lawyer...., /farmer)

S.t. – Sole trader

D.o.o. - A limited liability company

J.d.o.o. - A simple company with limited liability

D.d – A share holding company

K.d. - A company with share capital

K.d.d. –A limited partnership with share capital

ZTD- Companies Act

## **TYPES OF BUSINESS ENTITIES**

Based on the Companies Act, a company is a legal entity which independently carries out a profitable activity on the market as its exclusive activity. Legal entity can be organized in one of the following forms:

- As a personal company: public company, limited partnership, economic interest grouping

or

- As capital companies: limited liability company, share holding company, limited partnership with share capital and European limited liability company.

Basic legal organizational forms of entrepreneurship in Croatia are:

Companies:

Simple limited liability company,

Limited liability company,

Public company,

Share holding company,

Limited partnership,

Economic Interest Grouping

Craft and liberal profession

Cooperative,

Civil-law partnership,

Family farm,

Public Institution,

Civil Association,

Foundation,

Societas Europea.

Some of them are not intended to engage in profitable activities.

Most of the companies in Croatia are established in the form of a limited liability company. For this form, also the majority of foreign investors decide.

A common form is also a sole trader, which is not a legal entity - a sole trader is a natural person who independently carries out a profitable activity on the market.

Through this module we will focus on these two most common forms, information on other forms of business entities are written in Annex 1.1.

## **1.1. Sole trader**

### **1.1.1 Overview / Theoretical framework**

A sole trader is a business entity, but is not a legal entity. It is a natural person who performs a profitable activity on the market. His income shall be taxable as a personal income tax. A sole trader is a self-employed person who does not pay salaries and other bonuses to himself, which would otherwise belong to regular employees in other forms of business entities. However, he must join the compulsory insurance system and pay social security contributions.

In this form of business, it is interesting to know that a sole trader can freely dispose of earnings and can transfer it to household consumption whenever necessary. However, for his business operations he is responsible with his entire assets, which in the event of bad business poses a risk of losing personal assets.

Running a sole trader's activities are easy as it only requires the management of basic accounting and bookkeeping records and compliance with the rules that apply to the charging of services.

### **1.1.2 Important / exceptions**

Although the establishment of this business entity is simple and, in principle, there are no specific limitations for setting it up, however, certain persons who have a ban on professional activities cannot register business, during the ban remains in force.

This is the only limitation about registering this business entity in Croatia, but, if someone has tax debt from previous business activities as a self-employed, after registering a new business entity (self-employed), all tax debt what are recorded under the OIB of that person, will be automatically recorded in a new business of that natural person.

### **1.1.3. Tips from professionals**

Sole trader type of business is a good choice if the future business does not pose a risk to the loss of an entrepreneur's personal assets, it will have a lesser annual turnover (eg. up to 300 thousand H.R.K per year) or the activity will be simple (eg. renting a property or intellectual activities).

A sole trader who has no employees, and has less than 300 thousand HRK of annual turnover from a business, can opt for flat rate taxation and is not required to keep accounting books. This is important both from the point of view of ease of doing business and from a tax perspective. Since this taxation is classified in few categories, it is useful to find out the limits for the flat rate taxation, and how they are calculated.

In the presented table advantages and disadvantages of the status of a sole trader are described.

*Table 1: Advantages and disadvantages of the status of a sole proprietor*

Advantages	Disadvantages
No capital needed	An entrepreneur is liable for his obligations with all his assets, including private ones
Easy cash disposition	Taxation with income tax
Easy establishment	Unsuitable for setting up with multiple founders
Lower Administrative Costs	Lower credibility compared to other business entities
Can be establish by almost anyone	Specific professional education is necessary
Possibility of enforcing flat rate taxation	No possibilities for tax relief for dependent member of family (common household).

#### 1.1.4. Additional reading

If you want to learn more, here is the list of the recommended further reading:

Zakon.hr “*Law on craft*” (online). Available on: <https://www.zakon.hr/z/297/Zakon-o-obrtu>(08.09.2018.)

Entrepreneurships’ center. “*Liberal professions*” (online). Available on: <http://www.uhddr.hr/centar-za-poduzetnistvo/samostalna-djelatnost> (08.09.2018.)

Hitro.Hr. “*Establishment on craft*” (online). Available on: <http://www.hitro.hr/Default.aspx?sec=23> (08.09.2018.)

Minity of finance. Tax Department. “*Sole traders’ flat-rate taxation regulations*” (online). Available on: [http://www.porezna-uprava.hr/hr\\_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1643](http://www.porezna-uprava.hr/hr_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1643) (08.09.2018.)

Croatian Chamber of Crafts. “*New contributions base in 2018 for mandatory insurance*”(online). Available on: [https://www.hok.hr/press/novosti/nove\\_osnovice\\_za\\_obracun\\_doprinos\\_a\\_za\\_obvezna\\_osiguranja\\_za\\_2018](https://www.hok.hr/press/novosti/nove_osnovice_za_obracun_doprinos_a_za_obvezna_osiguranja_za_2018) (08.09.2018.)

## **1.2. Supplementary sole trader**

### **1.2.1. Overview / Theoretical framework**

Supplementary s.t. is a natural person who is regularly employed by another employer. He is therefore secured on a different basis, but it can carry out various profitable activities. This status enables that business activities are carried out legally and with very low mandatory costs.

Establishment of complementary s.t. make sense when a person performs smaller scope of business activities in addition to the regular employment (eg. renting of real estate).

Legal status, rights and duties of the complementary s.t. and full s.t. are the same. The main differences:

- Person is employed by another employer
- Supplementary s.t. pays a contribution for health and retirement insurance on earned income from supplementary activities.

### **1.2.2. Important / exceptions**

This type of s.t. is usually created by those who are not satisfied with work or earnings in the regular employment, or are interested in entrepreneurship and want to start their own business without great risk.

### **1.2.3. Tips from professionals**

Supplementary s.t. is the most appropriate business form for someone who is, for example, renting a real estate. By registering supplementary s.t. in most cases he is taxed lower than if he is renting the same real estate as a natural person without the supplementary s.t. status.

Entrepreneur can register supplementary s.t. if does not conflict with the employment contract regulations concluded with his employer.

### **1.2.4. Additional reading**

If you want to know more, here is the list of the recommended further reading:

Agroportal.hr. "*Supplementary s.t. on family farms*" (online). Available on: <https://www.agroportal.hr/savjeti/29923> (08.09.2018.)

Zakon.hr. "*Contributions Act*" (online). Available on: <https://www.zakon.hr/z/365/Zakon-o-doprinosima> (01.09.2018.)

Ministry of Finance. Tax Department. "*Contributions regulations*" (online). Available on: [http://www.porezna-uprava.hr/hr\\_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1101](http://www.porezna-uprava.hr/hr_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1101) (01.09.2018)

Details about sole traders' flat-rate taxation:

TEB.hr. Business consulting. "Flat-rate taxation of craft income" (online). Available on: <https://www.teb.hr/novosti/2018/pausalno-oporezivanje-i-placanje-doprinosi/> (01.09.2018.)

Flat-rate taxation of sole traders' regulations and other related provisions:

Ministry of finance. Tax Department. "Sole traders' flat-rate taxation Regulation" (online). Available on: [https://www.porezna-uprava.hr/hr\\_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1643](https://www.porezna-uprava.hr/hr_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1643) (01.09.2018.)

### **1.3. Limited liability Company**

#### **1.3.1. Overview / Theoretical framework**

Limited liability Company is a legal entity whose founding capital consists of the founders' contributions.

Founding capital must be at least 20 thousand H.R.K., as defined by the Companies Act.

A limited liability company may be set up by one or more natural or legal persons. The value of a founders' contributions may vary from one another; however, the lowest contribution is set at least 200 H.R.K.. Contribution can be in cash or provided as an actual input or actual takeover, e.g. investment in the form of real estate, movable property, rights, business or part of a business...

Unlike sole trader, founders for business activities are not liable with all their assets, but only with the capital of the company.

#### **1.3.2. Important / exceptions**

Among the founders of a limited liability company, there must be at least one shareholder and at least one managing director (for neither is compulsory to be Croatian national and/or to reside in Croatia).

Shareholder and managing director may be the same person.

Relations among founders are set up by the Founding Act.

### 1.3.3. Tips from professionals

Establishment of Limited liability Company is very safe from the point of view of protection of personal property. This is very important when there is more than one founder, and the wrong business moves of the influential ones harm everyone. In the case of a one-person company, it is worthwhile to evaluate all the effects of different business form and to decide whether a more appropriate is sole trader or Limited liability Company.

Take a look at the presented table in which the most important facts about s.t. and d.o.o. are compared. You should have it in mind these advantages and disadvantages while you are supporting each individual potential investor.

*Table 2: Comparison of an s.p. and a L.t.d..*

	<b>s.t.</b>	<b>d.o.o.</b>
<b>PERSONAL RESPONSIBILITY</b>	Not a legal entity, liable with personal asset	Liable only with capital contribution, capital of the company
<b>FOUNDING CAPITAL</b>	Not needed.	Minimum 20.000,00 HRK
<b>Founding costs</b>	Minimum	Notary needed - official tariff Depending on capital and number of founders and managers
<b>Taxation</b>	Income tax.	Corporate income tax.
<b>Bookkeeping</b>	Simple or double-entry bookkeeping. Flat rate taxation is possible – in that case no bookkeeping is needed.	Double-entry bookkeeping
<b>Disposal of money on the account</b>	Complete.	Not on disposal – money is property of the company.
<b>Salary</b>	There is no salary for s.t.	Salaries for employees are paid and regarded as a company's cost.
<b>Loans, funds on public tenders and calls for proposals</b>	Difficult, applying possible only for a limited number of calls and tenders.	It's easier to get a loan, easier to apply on tenders and calls.

### 1.3.4. Additional reading

Taking a look at the Corporations Act is highly recommended.



Zakon.hr "Corporations' Act" (online). Available on: <https://www.zakon.hr/z/546/Zakon-o-trgova%C4%8Dkim-dru%C5%A1tvima> (08.09.2018.)

#### 1.4. Quiz and exercise

Questions:

1. Which are the most common two business forms in Croatia?

- a) Limited liability company and sole trader
- b) Limited liability company and company with unlimited liability
- c) Sole proprietor and company with unlimited liability
- d) Sole proprietor and company with share capital

2. With what is the sole trader responsible for doing business?

- a) Generated revenue
- b) With all of his assets
- c) The property of the whole family
- d) Generated profit

3. What is the difference between a sole trader and a supplementary sole trader?

- a) (Full) sole trader may engage in any business activity, while supplementary may only do the crafts work.
- b) Supplementary sole trader is a natural person who is employed by another Employer, sole trader is a natural person, not employed by another employer.
- c) Supplementary sole trader cannot do business with cash, sole trader can do business with cash.
- d) Supplementary sole trader can conclude an employment relationship with himself while (full) sole trader cannot.

4. How much is the minimum founding capital for a limited liability company?

- a) at least 20.000,00 HRK
- b) at least 200.000,00 HRK
- c) a maximum of 20.000,00 HRK
- d) a maximum of 200.000,00 HRK

#### Exercise:

Make a calculation of the exact amount of personal income tax for a sole proprietor who has chosen a flat rate taxation option and had an annual turnover of 250.000,00 HRK.

The method of calculation you can find in "Sole traders' flat-rate taxation Regulation".

Tax rate is 12%.

Write your answer \_\_\_\_\_

#### Please, rate the answer:

- a) Correct

- b) Partially correct / Incomplete
- c) Incorrect

## **2 PROCEDURES AND COSTS OF ESTABLISHMENT OF BUSSINES ENTITIES**

Before establishing a business entity, regardless of the chosen form, it is necessary to obtain information about any possible additional conditions necessary for a specific business.

The conditions are published on [PSC.hr](http://PSC.hr) web page:

### **2.1. Registration of a sole trader and supplementary sole trader**

#### **2.1.1. Overview / Theoretical framework**

##### **2.1.1.1. Conditions**

Sole trader can be established by any person capable of doing business, insofar as he is not a tax debtor or is not on the list of tax defaulters at the Financial office of Republic of Croatia.

In some business sectors (intellectual services for example) there are no specific conditions for pursuing the business. Sole trader only needs a business place, or he can even do business from home.

However, in the case of a number of sectors, certain conditions must be fulfilled before starting the business (specific permits, licences have to be obtained).

The conditions are published on the [governmental web page](#).

##### **2.1.1.2. Procedure**

Sole trader establishment is very easy – it takes only few steps. For registration via the e-Obrt, a digital certificate is required, which can be ordered by any natural person for free at the administrative unit. It requires just a personal document.

The first step is **registration in the Register of Craft Businesses** . This can be done personally in the government office or in internet form by the intermediary Financial Agency (FINA) [HITRO.HR](http://HITRO.HR). Application for Entry in the Register of Craft Businesses and list of necessary documentation depending on type of business activities can be taken via Portal of Register of Craft Businesses Republic of Croatia, [Portor.hr](http://Portor.hr).

The second step is to **register with the Ministry of Finance** of the Republic of Croatia. Sole trader must define locations where the business activities will take place and where the revenues will be generated, whether he has any business units or capital investments in home country and / or abroad, whether he has any accounts abroad and their numbers. A Person need to decide (in accordance with legal regulations) for the way of taxation (flat rate or earned income).

The third and last step is **registration into the Retirement and Health Insurance** at Health Insurance Institute of Republic of Croatia. Registration is done on the form “M 1” and “Form-1”.

The establishment procedure for supplementary is the same, except that in this case he needs to fulfill the requirement that he is employed at another employer. The consent of his employer is not necessary.

### **2.1.1.3.Documentation needed**

In order to enter into the Register of Craft Businesses, the future sole trader must fill in Application for Entry in the Register of Craft Businesses and add:

- valid personal identification document;
- if it is necessary, a proof of fulfillment of special health conditions;
- a proof of right to use business premises (if business activities requires business place);
- in the case of related craft, evidence of formal qualification, master’s certificate or professional competence (if the applicant has not this documentation, he can hire an employe who has all required qualifications, and continue with his business activities);
- Third-country nationals working permit (non-European Economic Area countries);
- valid residence registration certificate.

### **2.1.1.4.Timeframe**

In case that there are no specific requirements regarding the premises or business performance, and that the future sole trader has provided all the necessary documentation and information, the entire procedure can be carried out at in the few days.

### **2.1.1.5.Where to apply?**

The registration in the Register of Craft Businesses can be done in person in the government office or internet form or by the intermediary Financial Agency [HITRO.HR](http://HITRO.HR).

Application for Entry in the Register of Craft Businesses and list of necessary documentation depending on type of business activities can be taken via Portal of Register of Craft Businesses Republic of Croatia, [Portor.hr](http://Portor.hr)

### **2.1.1.6. Costs**

Tax for registration in the Register of Craft Businesses is 270 H.R.K..

Issued trade license costs 200 H.R.K..

The cost of any other necessary permission depends on the type of permission.

### **2.1.2. Important / Exceptions**

A sole trader must open a giro account for business transactions.

When the future sole trader is not the owner of the real estate where his business address is registered and he will perform his business activities, owner's permission for using business address or rental contract is needed.

### **2.1.3. Tips from professionals**

Before the future sole trader makes a registration into Trade registry, make sure that he has all necessary documentation.

After the registration sole trader must – as soon as possible - take care of a business account so that the business can take place smoothly.

A sole trader needs to select high quality accounting service provider (except if he opts for flat rate taxation).

If he will make business with natural persons and receive payments in cash, he must have a tax cash- register, and perform activities which are defined by the provisions of Fiscalization Law.

### **2.1.4. Additional reading**

More useful information can be found on the following suggested links:

Conditions for performing activities

PSC. Unique contact service spot. “ *Conditions for performing activities.* ” (online).

Available on: <http://psc.hr/uvjeti-za-obavljanje-djelatnosti/> (10.09.2018.)

Conditions for pursuing the business

Republic of Croatia. State Administration Office PrimorskoGoranskeŽupanije. “ *Department of Economy* ” (online). Available on: [http://www.udu-pgz.hr/sl\\_gosp.htm](http://www.udu-pgz.hr/sl_gosp.htm) (10.09.2018.)

Registration in the Register of Craft Businesses.

[Portor.hr](https://e-obrt.portor.hr/). “Register of Craft Businesses Portal” (online). Available on: <https://e-obrt.portor.hr/> (10.09.2018.)

Portal of Register of Craft Businesses Republic of Croatia

[Portor.hr](http://www.portor.hr/index.php/obraci/). “Portal of Register of Craft Businesses ” (online). Available on: <http://www.portor.hr/index.php/obraci/> (10.09.2018.)

Instructions when entering into the Register of Craft Business

Government office PrimorskoGoranskeŽupanije. "Instructions when entering into the Register of Craft Business" (online). Available on:

[http://www.udu-pgz.hr/info/info\\_obrtni\\_registar.htm](http://www.udu-pgz.hr/info/info_obrtni_registar.htm) (10.09.2018.)

Instructions how to establish craft business:

HITRO.HR – Instructions "How to establish a craft business" (online). Available on: <http://www.hitro.hr/Default.aspx?sec=23> (10.09.2018.)

Conditions for business of sole trader in EU:

Chamber of Trades and Craft Zadar County. "Conditions for performing business activities of sole trader in EU" (online): Available on: <http://www.obrtnicka-komora-zadar.hr/home/9-svi-artikli/novosti/247-uvjeti-poslovanja-u-europskoj-unij> (10.09.2018.)

Information about related crafts:

PSC.Unique contact point for services.”Privileged crafts” (online). Available on: <http://psc.hr/vezani-obrti-za-obavljanje-kojih-se-kao-uvjet-trazi-majstorski-ispit/> (10.09.2018.)

## **2.2. Registration of a limited liability company**

### **2.2.1. Overview / Theoretical framework**

Limited liability Company is the most common form of a company in Croatia. The process of establishment shall be carried out in notary’s office.

#### **2.2.1.1. Conditions**

Conditions for establishing d.o.o. are as follows:

- all funding contributions in cash must be paid to the provisional bank account or valuation of property or rights which shall be share capital;
- founders have signed the standard business establishment contract, or statement (in case of one founder);

- all participants (establishers, managers) must be present because all documentation and signatures must be certified by the notary.

A foreign citizen can set up a limited liability company in Croatia under the same conditions as Croatian citizens. Prior to the registration is obtained Croatian identification number. Court interpreter needs to present (unless the foreign citizen understands and speaks Croatian language.)

Conditions and recruitment procedure, please see in Module 6.

### **2.2.1.2. Procedure**

All founders and managers must be present by the notary.

In case when the founder is a legal person, his legal representative must be present.

All founders and legal representatives must personally sign the documents in the notary's office, on the same day that all the documents were created.

Founder(s) deposit the founding capital (minimum 20 thousand H.R.K.) on the temporary account in the selected bank.

Via e-Tvrтка service it is possible to establish d.o.o. from any notary office or HITRO.HR office in Republic Croatia. In two days after submitting an application to the court, founders will receive the decision on registration of the company into the Business. At the same time founders also receive the tax number of the company

To register a limited liability company electronically, all founding contributions must be in cash and paid up prior to the filling of a proposal for registering a company in the court register.

In paper form, procedure for registration lasts 15 days.

Some of the following needed steps:

- After making the stamp, the company need to apply to the Statistical institute of Republic Croatia into Register of business subjects and need to report main activities on the [Form RPS-1](#) ;
- After the Nottification of classification recived from Statistical institute, company's bank account can be opened;
- Obtaining a permit to perform a selected business activity, if necessary (please check the requirements for specific business [here](#));
- For a manager without employee status, an application for payment of social security contributions is required;
- Basic company's documentation, accountant service contract, business premises lease contract must be delivered to the authorized Tax Department;
- Safety and health at work regulations, Labour Law and ollective Agreement must be respected (depending on specific businesses).

### **2.2.1.3. Documentation needed**

When registering d.o.o., a natural person needs to provide a personal identification document, his tax or personal identification number (O.I.B.) and a proof of payment of the founding capital.

All legal persons (founders), however, need a short version of the extract from the register of companies, personal documents of their founders and legal representatives, business tax number, and a proof of payment of the founding capital.

In addition to the above mentioned documents, founder(s) needs to provide data on:

- founders and the company's legal representatives;
- full name of the company;
- business address;
- list of business activities to be carried out within the company.

In relevant office, the following documents will be prepared:

- establishment act or contract;
- decision on the business address;
- decision on legal representative(s);
- list of founder(s);
- list of legal representative(s);
- signature of founder(s) and legal representative(s);
- list of members of the Supervisory Board (if exist);
- decision on the procurator (if exist);
- signature of the procurator (if exist);
- Statement of appointment of the members (the statement is issued for each representative separately; in the statement, the representative agrees with the performance of a particular function);
- Statement of a founder (the statement is issued separately for each founder; the founder guarantees that he does not have outstanding liabilities to the country from previous businesses);
- form for registration at the Cort Register.

List of these documents can be found on the website of the [Agency for Investments and Competitiveness](#).

### **2.2.1.4. Timeframe**

After the submission of a complete application into the Register of business entities, the registration decision is issued in two days (if submission was in the electronic way), or 15 days (if submission was in paper form).

### **2.2.1.5. Where to apply?**

Via e-Tvrtka service it is possible to establish d.o.o. from any notary office or HITRO.HR office in Republic Croatia.

### **2.2.1.6. Costs**

Costs of lawyer, notary service and court tax for establishing Limited liability Company depends on the amount of share capital and number of members (signatures).

### **2.2.2. Important / Exceptions**

Whether the founder is the owner of the facility where company's business address is set or not, the Company must have lease agreement of business or office space, or the statement of the owner that the address is only business address for receiving mail. The statement doesn't need to be verified.

In the case that the lessor is a natural person, lease agreement has to be declared to the authorized Tax Department.

### **2.2.3. Tips from professionals**

In order to be completely familiar with the procedure and required documentation it is recommended that you as a future F.D.I. advisor prepare all the necessary documentation and personally revise all registration procedures (up to the point of filing the documents to the relevant organizations).

### **2.2.4. Additional information**

Please, check the list of recommended further reading:

Establishing a Company – procedure:

HITRO.HR. "*How to establish a Company?*" (online). Available on:

<http://www.hitro.hr/Default.aspx?sec=22> (11.09.2018.)

More about safety and health at work regulations:

Institute for improvement of safety at work. "*Employer's obligations regarding work protection*" (online). Available on: <http://zuznr.hr/obveze-poslodavca-iz-zastite-na-radu/> (11.09.2018.)

RPS-1 Form



Statistical institute of Republic Croatia “*Entry into Register of business subjects*”. (online). Available on: <https://www.dzs.hr/hrv/important/notices/upisrpsht.htm> (10.09.2018.)

PSC. Unique contact point service. “Conditions for business activity” (online). Available on: <http://psc.hr/uvjeti-za-obavljanje-djelatnosti/> (10.09.2018.)

## 2.3. Quiz and exercise

### Questions:

1. In which registers a sole trader must enter before he starts his business?
  - a) The Register of taxpayers at Ministry of Finance, Register of business subjects, Retirement and Health insurance system
  - b) Trade registry, the Tax system and Health insurance system
  - c) The Trade registry, Register of taxpayers at Ministry of Finance, Retirement and Health insurance system
  - d) The Register of sole trader, Retirement and Health insurance system
  
2. How long does it take to register in all registers, on the assumption that the future trader has all the required documentation?
  - a) One to three days
  - b) Three to seven days
  - c) One week
  - d) One month
  
3. Which condition must be set in order to be able to register a limited liability company electronically?
  - a) all founders must have cash with them when coming to the competent office
  - b) one of the founding contribution must be in cash and must be paid up prior to the filing of the proposal for company registration in the court register
  - c) all founding contributions are in cash and will be paid up after the filing of the proposal for company registration in the court register
  - d) all founding contributions are in cash and are paid up prior to the filing of a proposal for registering a company in the court register;
  
4. Which of the documents will NOT be prepared for the investor at the HITRO.HR office or notary office?
  - a) establishing act
  - b) temporary bank account
  - c) an entry form for the Cort Register
  - d) a Statement of Directors on the acceptance of responsibility

## **Exercise**

Create a list of all documentation to equip a foreign investor - a natural person - from a non-EU country to establish limited liability company.

Write your answer: \_\_\_\_\_

**Please, rate your answer:**

- a) Correct
- b) Partially correct / Incomplete
- c) Incorrect

### **3 PROCEDURES AND COSTS OF OPENING A BRANCH**

#### **3.1.Overview / Theoretical framework**

The branch is part of a company located in a different location than the company's registered business address. In spite of the fact that a branch is not a legal person, it can carry out all business activities performed by the company.

A branch of a foreign company may pursue all registered business activities on behalf of that company. The registered name of the parent company, the registered name of the branch and the registered branch business address must be used. A branch can be created by no capital investment.

Most often, branches are established for the purpose of profitable business activities of a foreign company in Croatia, since a foreign company can legally operate in Croatia only if it establishes a branch or an independent new company.

##### **3.1.1. Conditions**

A branch may be established by a domestic or a foreign legal entity, without any founding capital.

A foreign company and its legal representative must obtain a Croatian identification (tax) number (OIB) before registering in the court register.

A foreign company from a non- E.U. country may establish a branch in Croatia only if Croatian citizens can, under the same conditions, establish branch in foreign country where foreign company is established.

A foreign company from a non- E.U. country may establish a branch in Croatia if it is registered for at least two years in the country where it is established.

##### **3.1.2. Procedure**

The application for registration of a branch must be submitted by a legal representative of a (foreign) company.

Entry into the court register is conducted by a notary.

After the establishment of a branch, a bank account can be opened.

### **3.1.3. Documentation needed**

To register a branch office, it is necessary to apply for registration and enclose the following original documents and certified translations in Croatian language:

- except from the court register (in which must be visible legal form and the date of establishing foreign founder's branch office);
- information of the legal representatives and their scope of business activities;
- founder's decision on the establishment of the branch;
- certified transcript of the statement of establishment in accordance with the legislation of the country where the founder has its registered office (articles of association or statute of the founder);
- founder's certified abridged financial report for the previous year;
- information on the bank account of the parent company (name of the bank, the bank account number);
- a copy of the legal representative's passport;
- information on the legal representatives of the parent company;
- the tax number of the parent company;
- the address of the branch, the branch's business activities (the branch's activities must be the same as the activities of the parent company);
- the name and legal form of the parent company and the name of the branch.

All documentation must be translated on Croatian language and certified by the official court translator.

### **3.1.4. Timeframe**

The branch is registered within 7-14 days.

### **3.1.5. Where to apply?**

An application for registration of a branch in a court business register must be filed by a legal representative of a (foreign) company at a notary.

### **3.1.6. Costs**

The costs of establishing a branch are composed by:

- the costs of the notary services;  
(they depend on the composition of documents difficulty, the necessary verifications, the composition of the proposal in the court registry);
- costs of the needed translations by the official court interpreters.

### **3.2. Important / Exceptions**

A branch can only perform the activities listed in the business registry. If the law specifies special conditions for the commencement of the activity, this activity may only begin if it meets all the specific conditions required in the Republic of Croatia.

The branch office operates under its own company and should state its head office and the head office of the founder.

A foreign company may establish several branches in the Republic of Croatia. In this case, it must select the main one. Other branches must be listed in a numerical order.

### **3.3. Tips from professionals**

Since branches are not legal entities, branch offices may not independently hold legal rights and obligations in business transactions and legal affairs. The liabilities and rights stemming from its operation do not belong to the branch office but to the founder. In case of dispute with third parties, the branch office is not a party to, but the company or sole trader that owns the branch office.

Regarding the taxes, the method of VAT calculation and other, is therefore worthwhile consulting with specialised accounting experts.

Before setting up a branch, it makes sense to check whether it is more appropriate for a foreign company to establish a new company in Croatia (100% owned by a foreign company).

### **3.4. Additional information**

More interesting information can be found on the presented list of recommended further reading:

Branches are bound by two legal acts: the Companies Act and the Directive 2012/17 / EU of the European Parliament and of the Council on disclosures of branches. The first regulates the status aspects of the establishment of a branch, while the other regulates the disclosure of certain documents and data by branches.

Law.Hr. "*The Corporation Act*" (online). Available on: <https://www.zakon.hr/z/546/Zakon-o-trgova%C4%8Dkim-dru%C5%A1tvima> (20.09.2018)

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More information about branches

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Agency for Investments and Competitiveness. *"Opening a representative office"* (online). Available on: <http://www.aik-invest.hr/investicijski-vodic/osnivanje-trgovackog-drustva/osnivanje-predstavnistva/> (20.09.2018.)

### 3.5. Quiz and exercise

1. Can a foreign company from a non-EU country establish a branch in Croatia?
  - a) Yes, if it is registered for at least two years in the home country
  - b) Yes, if it has more than 500.000,00 HRK of annual turnover
  - c) Yes, if it will employ at least 5 Croatian workers
  - d) No
  
2. Who is can lead the procedure of registering a branch in the court register?
  - a) Legal representative of a foreign company
  - b) Intermediary agency
  - c) Notary
  - d) Attorney
  
3. What is the required founding capital for registering a branch?
  - a) At least 20.000,00 HRK
  - b) At least 200.000,00 HRK
  - c) The founding capital is not required.
  - d) Exactly 20.000,00 HRK

#### Exercise:

A foreign who comes from an EU member state wants to establish a branch in Croatia, whose main activity is research in the field of labor market. Create a list of documentation that must be submitted to the notary.

Write your answer \_\_\_\_\_

**Please, rate the answer:**

- a) Correct
- b) Partially correct / incomplete
- c) Incorrect

## **4 BUSINESS ADDRESS AND VIRTUAL OFFICE**

### **4.1. Overview / Theoretical framework**

The business address of the company is where the company's head office is. It is the place where an entrepreneur carries out his business activities or a place where the management of the company operates. Before the registration of the company, the founder must provide a business address.

An entrepreneur can avoid high rental costs and real estate purchase if he does not actually need the business premises. The cost can be reduced to a minimum by hiring a virtual office.

The virtual office offers the possibility of using a business address for the company's headquarters, the possibility of receiving official mail, notifying and redirecting of the incoming mail, receiving phone calls and faxes, offering the use of a meeting room, etc.

The advantages of hiring a virtual office are: reduced or minimum costs of investing in business premises, the consent of neighbors or co-owners is not necessary for the registration of the company, a visible presence in the business environment, business and personal addresses are separated. The offer of virtual offices is extensive, so an entrepreneur can easily find the one that most suits his needs.

The price of a virtual office rental is somewhere between 375 H.R.K. and 2 thousand H.R.K. per month, depending on the additional services that entrepreneur needs. Different providers have different service packages and different prices for them. The prices of virtual offices vary also according to the location.

### **4.2. Important / Exceptions**

A virtual office is not sufficient in specific businesses in which business premises are indispensable.

To carry out certain business activities - especially in the field of catering, trade, warehousing, production, education, various workshops, laboratories, ambulances and similar - an adequate business premises must be provided. At the registration of the company, this condition is not checked, but the entrepreneur must provide adequate business premises and acquire the appropriate permits before starting the business.

In this case entrepreneur can rent or buy adequate property. As a rule, any facility in which the business premises are located must have a valid permit, irrespective of the business activity. The permit is issued by the administrative unit (Department of Environment and Spatial Planning) in the area where the property is located. If the property doesn't have this permit, the start of business operations may be delayed. Therefore, it is advisable that entrepreneur checks that the property has a valid license before buying or renting it.



Most companies initially register their business address at home, in a private house or in a dwelling. This can be done by all those who perform a quiet activity and at the same time an activity for which a statutory or other regulation does not stipulate that the business premises are compulsory. You do a quiet activity if you do not disturb your neighbors and do not burdened excessively common spaces.

### **4.3. Tips form professionals**

An increasing number of foreign investors opt for virtual office, as it is affordable, flexible and not binding for a long time. More and more importance is gaining mobility and flexibility, as entrepreneurs often carry out their activities in several different locations. You should offer this option to the foreign investor.

As an interesting feature, also worth mentioning are co-working premises - affordable business premises, which several entrepreneurs share. Their use is more popular among young companies / entrepreneurs who do not yet have regular income and want to save on costs. Co-working premises are fully equipped and the entrepreneur can start his business immediately upon moving in them. Due to the proximity of other entrepreneurs, business networking is facilitated, as opportunities are already present in the building itself. In addition, co-working contracts are valid for a shorter period of time and entrepreneurs do not bind themselves for a long time, which allows them greater flexibility.

### **4.4. Additional reading**

Virtual office offer can be checked by providers, like [REGUS](#).

#### 4.5. Quiz and exercise

1. Can a virtual office be hired to carry out catering activities?
  - a) No, because the foreign investor must provide the appropriate business premises and the relevant permits for this activity.
  - b) No, because providers of virtual offices do not offer this.
  - c) Yes, because agency offers this type of virtual offices.
  - d) Yes, because catering services can be done anywhere.
  
2. When does it make sense to hire a virtual office?
  - a) When a foreign investor does not actually need business premises to pursue his business.
  - b) When a foreign investor needs a production premises.
  - c) When a foreign investor deals with hotel business.
  - d) When a foreign investor is involved in activities of a health clinic.

#### Exercise:

Investigate what would be the cost a foreign investor will have by renting a virtual office in Zagreb offering the following services:

- Business address of the company at an accessible location in Zagreb,
- Receiving mail,
- Receiving registered mail,
- Immediate notification of the arrival of the registered mail,
- Mail scanning (up to 3 scans per month),
- Weekly notification of incoming mail,

Write your answer \_\_\_\_\_

#### Please, rate your answer:

- a) Correct
- b) Partially correct / incomplete
- c) Incorrect

## 5 BUYING AN EXISTING BUSINESS

## 5.1. Overview / Theoretical framework

Investors who want to buy an existing **Croatian company or business** can do so by takeover, purchasing shares, a merger (or de-merger) or by concluding a management agreement with the company.

### ADVANTAGES AND DISADVANTAGES OF BUYING AN EXISTING BUSINESS

An entrepreneur may choose to purchase an existing company & business to:

- lower the risk which occurs when launching a new business on a new market;
- reduce start-up costs (already existing inventory, patents, customers, etc.);
- immediately produce cash flow due to ongoing business activities.

Potential risks when buying an existing business are:

- hidden problems (debts that you may not be able to repay, already signed hidden contracts, other possible complications);
- the purchasing cost may be much higher than the cost of starting a new business.

#### 5.1.1. Procedure

**Companies for sale** are limited liability companies with or without an established business, depending on your preferences. These companies can be bought directly from the owners or intermediaries. The procedure has to be done in front of a notary, with a purchase agreement. Beforehand, the accounting service of the previous owner must prepare all their documentation. It is wise to check the documentation of the company's previous business operations.

**Bankrupt businesses for sale** are usually posted on the Commercial court or bank websites. Another option is to contact the companies which are conducting business during intermediation or contact the business owners directly. Those businesses are bankrupt, so purchasing them also means purchasing their debts.

#### 5.1.2. Documentation needed

The following documents are required to take over an already established limited liability company in Croatia:

- identify card (or passport);
- a proof that existing company is registered in Court business register;
- existing act/contract of establishing a company.

All documents and changes are formalized at the notary office, in the presence of a certified legal translator (if one of participant is foreign citizen and don't speak and understand Croatian).

Further information that has to be provided the notary office:

- company name (if the existing name is intended to be changed);
- company's new address;
- a list of members and shares (percent);
- company's main activity.

On the basis of above mentioned information it should be done:

- contract of takeover the shares;
- statements of managers (assumption of responsibility);
- registration of the alteration in the Company register.

## **5.2. Important / Exceptions**

The procedure is the same for **citizens from the E.U. member states** as for domestic investors. For the **non-E.U. citizens**, the procedure is different, because by law, (for third country citizens) minimum share capital is 200 thousand H.R.K.

## **5.3. Tips from professionals**

### **CHECK THE EXISTING BUSINESS OR COMPANY'S SELLER**

On Croatian market, there are providers of ready-made companies with an established business or newly opened companies.

Be careful when buying an existing business. Only buy from trusted providers and always check for the information that the Company is clear of all debts. Ask for Official statement from the Croatian Ministry of Finance -debt position of the taxpayer.

### **CHECK THE COMPANY'S HISTORY**

If you are also buying an existing business with the company, you should check what business they operated, why it is not profitable, what competition they had on the Croatian market and the country's legislation, among other things. You can check the company's previous owners and business results by yourself on the Cort register (SUDREG), where annual reports and ownership, as well as some other information of the company are published.

Nevertheless, the buyer never knows legal actions that were taken by previous owners for which the new owner could bear the consequences. Cautiousness is advised.

## **5.4. Additional reading**

For more detailed information, please check the following list of the recommended further reading:

The Corporations Act (consolidation)

ZAKON.HR.” *The Corporations Act*” (online). Available on:  
<https://www.zakon.hr/z/546/Zakon-o-trgova%C4%8Dkim-dru%C5%A1tvima> (12.09.2018.)

More about corporation’s overtake

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<https://lider.media/znanja/akvizicije-kako-preuzeti-drugu-tvrtku-ne-pogrijesiti/> (12.09.2018.)

Information about established companies in Croatia

Ministry of Justice.” Court Registry”(online). Available on:  
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## 5.5. Quiz and exercise

### Quiz:

1. Where can existing companies be bought?
  - a) Directly from owners or National Office for Entrepreneurship
  - b) Directly from owners or real estate agents
  - c) Directly from owners or intermediaries
  - d) Directly intermediaries only
  
2. What documentation should foreign investor require before buying an existing company?
  - a) Whole accounting documentation from the accounting service of the previous owner
  - b) Previous year accounting reports
  - c) Previous 2 years accounting reports
  - d) Copy of the contract with the accounting service of the previous owner
  
3. What is the difference when domestic investor or investor from EU member states and when third country national is buying the existing company?
  - a) Non-EU citizens have to pay a tax on buying a company.
  - b) Non-EU citizens have register the buy at National Entrepreneurship Agency.
  - c) Non-EU citizens have to be employed.
  - d) Non-EU citizens can takeover company with at least 200.000,00 HRK share capital

### Exercise

Select one of the Ltd on sale or some other Ltd and collect information about the Company as much as possible (check company's status, business and debts).

Write your answer: (what did you check and where):

---

### Correct answer:

### Please, rate your answer:

- a) Correct
- b) partially correct / incomplete
- c) Incorrect

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## **Annex 1.1 – Other profit making business entities**

### **1.1.a. Simple company with limited liability (j.d.o.o.)**

Simple company with limited liability (j.d.o.o.) can be established by one or more legal or natural persons. Minimum share capital is 10 H.R.K.. This company has equal status as company with limited liability (d.o.o.). The only difference is, j.d.o.o. has an obligation to keep 25% of profit after taxation in the purpose of recapitalisation. When company raise its share capital up to 20 thousand H.R.K. or more, and change its status in d.o.o., this obligation terminates.

Investors decide for this type of company for its low amount of share capital and low establishment costs.

In the table advantages and disadvantages of this business entity are presented.

<b>Advantages</b>	<b>Disadvantages</b>
Low amount of »start-up« capital	The owner can dispose with 75% of income
Low establishing costs	Additional costs of recapitalization and transformation into d.o.o.
Low risk of losing invested capital	Lower possibility of getting a loan, guaranties, competition etc. as d.o.o. company

### **1.1.b. A share holding company(d.d.)**

A share holding company is a company whose founding capital is divided into shares. The minimum amount of the founding share capital is 200 thousand H.R.K., the lowest nominal amount of the share is 10 H.R.K..

A share holding company is responsible for its obligations with all its assets, while shareholders are not liable for the company's liabilities.

Establishment may be made by one or more natural or legal persons who adopt a statute at the notary.

The founding share capital has three main functions: it is the basis for determining the share of the shareholders' share in terms of the nominal amount of the shares, enables the start-up of the company and guarantees that all debts will be repaid.

A share holding company is the right selection when the foreign investor wants to trade with share on the stock market.

Stock sharing is possible only when the company fulfills all conditions for listing on the stock market. Therefore, in most cases it makes sense to establish a d.o.o. When the business expanded sufficiently and the company qualifies for listing on the stock market, it should be transformed from d.o.o. into d.d.

In the table advantages and disadvantages of a share holding company are presented.

Advantages	Disadvantages (in comparison with a limited liability company - d.o.o.)
Possibility to operate on the stock exchange	Founding capital is higher
	Proces of establishment is more demanding
	Operating costs are higher

### 1.1.c. A Limited partnership (k.d) and public company (j.t.d)

K.d. may be established by two or more persons, but at least one of these co-founders is responsible with all his assets (unlimited liability partner) and at least one co-founder till the amount of invested capital (limited liability partner). Co-founders may be citizens of Croatia or foreigners; legal or natural persons. The name of a company must consist at least one name of the co-founder, who has unlimited liability in the company and of the abbreviation of »k.d.«.

Contractual share (investment) can be in cash, in-kind contributions and in the form of services; if the value of non-cash contributions can be estimated.

Limited partner is not entitled to conduct business of the company, nor should he oppose the operations of the unlimited partner. However, if unlimited partner acts contrary to the Companies Act, limited partner is equally responsible.

Partners who think about this kind of company should consult with experts and then decide if this type of company is really the most suitable for them.

In a public company (j.t.d.) is also established by two or more persons in order of permanent business activities in common company. In this type of entity every member of company is responsible to creditors unlimited and with all his property. Company member can not dispose with his share without agreement of other members.

In the table advantages and disadvantages of a Limited partnership are presented.

Advantages	Disadvantages
Founding capital is not mandatory	Unlimited partner is responsible with all of his assets for the company's obligations
Founding capital can be in the form of services	Potential conflict of interests between different types of partners (unlimited partner and limited partner)
Some founders can invest only capital	

(unlimited partners), some can invest only services (limited partners).

#### **1.1.d. A limited partnership with shares(k.d.d.)**

A limited partnership with shares is a company with at least one shareholder responsible for company's obligations with all its assets (unlimited liability partner); but share holders in founding capital (partners with limited liability) are responsible for company's obligations till the amount of investment.

Like a share holding company(d.d.) also limited partnership with share capital (k.d.d.) has mandatory bodies. These are: the board of directors, the assembly and the optional board of shareholders. In cases stipulated by the law, the company must also have a supervisory board. In case when the limited liability partner is a natural person, he may perform the function of a member of the management board.

The Assembly is composed of unlimited liability partners. Limited liability partners do not have the right to vote unless they participate in the share capital although they are not members of the Assembly.

Partners who think about this kind of company should consult the relevant experts and then decide if this type of company is really the most suitable for them.

## **Annex 1.2: PROCEDURES AND COSTS OF OTHER BUSSINESS ENTITIES ESTABLISHMENT**

### **1.2.a. A simple company with limited liability (j.d.o.o.)**

The procedure of establishment of simple company with limited liability is similar to the procedure of establishment of company with limited liability.

Basic differences are:

- Company can have max. 3 founders ( legal or natural persons)
- Only one person can be board member
- Founding stake (min. 10 H.R.K.) must be paid in cash

Information and documentation, on which is based application for registration into Court registry, are:

- Company's name
- Head office address
- Information of founders and board members (their personal identifications documents, OIB and signed statements)
- List of business activities
- Statement or contract of establishment

Further procedure and deadline is the same as limited liability company. Costs od establishment are much lower and depend on the number of signatories and the amount of founding capital.

### **1.2.b. A share holding company (d.d.)**

A share holding company (d.d.) is a company whose share capital is divided into shares. The company can be established by one or more natural or legal persons who signed a Statute in the form of a public notary's record.

The founders need to present to the notary the following identification data:

- Name and surname, number of personal identification document, address of permanent residence (in the case of a natural person),
- company's name, registration number, OIB, business address (in the case of legal entities),

Other required procedures before performing business activities are the same as for other business entities.

D.d.. is a complex organizational form - it is advisable to visit legal expert who will make all required documents, and check all possible consequences. Founders should decide if this type of entity is the most appropriate form for them.

### **1.1.c. A limited partnership (k.d.) and Public trading company (j.t.d.)**

A company with share capital (k.d.) can be established by at least two domestic or foreign natural or legal persons who decide to carry out jointly the selected business.

The company has to be established by a public notary. The personal presence of the founders (natural persons or representatives of legal persons) is compulsory for the drawing up and signature of the documents at the public notary's office.

The following information needs to be provided:

- name of the company,
- business address of the company,
- identification data of the founders (name, personal identification number and address of permanent residence for natural persons; company registration number, OIB business address legal representative data for legal persons; if the founder is foreign national it is required croatian OIB),
- definition of founders with full liability and the ones with limited liability,
- type and scope of responsibility for the obligations of the company (full liability founders are liable with all their assets, limited liability founder only with company's assets),
- amount of the founding contribution of full liability partners,
- identification data and type of representatives (founder with limited liability, manager or procurator...),
- manner of representation (alone or in common),
- limits of representation,
- list of business activities.

On the basis of these information, the notary draws up the following documents:

- a contract with certified signatures of all founders,
- decision of appointed manager (if there is any) and his statement of position acceptance

Other procedures are the same as for other business entities,

FDI advisor should suggest to the foreign investor public notary's office which has experience with establishing this bussiness form.

### **1.1.d. A limited partnership with shares (k.d.d.)**

The founders are as follows:

- complementary (responsible for k.d.d and it's management),
- shareholders (investing and acquiring shares).

The procedure of establishment is similar to the establishment of a share holding company (d.d.). Founding Statute must be accepted by founders.

The Statute must contain everything contained in the Statute of a share holding company (d.d.) and:

- name, surname, residence address or name and business address (in case of a legal person) of each complementary
- all cash or in-kind investments of the complementaries' must be indicated.

## **Module 2: Legislation requirements and costs regarding running the business**

### **Summary**

This module is designed to make you understand the legislation that the company must follow, the tax system and some basic business ethics.

Upon completion of this module, you will be familiar with the basic legislation, the way the tax system works in Croatia, and the tasks that any taxable person shall exercise.

### **Glossary**

Trader - legal or natural person who constantly performs business activities in order of making a profit.

Business entity – legal person which establishment and organization is regulated by Corporations Act

Sole proprietor – natural person, who performs business activities in accordance with craft regulations, enrolled in Court registry as sole proprietor and keeps its books according to the law on accounting.

Company – Business entity

Entrepreneur – in this chapter: trader, company, sole proprietor and other natural person performing self-employed activities, and non-profit organizations.

Sole trader – natural person who performs independent business activities in accordance with craft regulations (craft: carpenter, caterer...../ independent occupation: doctor, lawyer, accountant... /farmer)

Taxable person – every legal and natural person bound by the Law to pay taxes

Non-resident – legal or natural person whose headquarters, temporary or permanent residence is outside of the territory of the Republic of Croatia.

FINA – Financial Agency – leading Croatian company in the fields of financial and electronic services

VAT – value added tax

INTRASTAT – system of collecting goods trading information between EU Member states.



CENTRAL BUREAU OF STATISTICS - DZS – State administrative organization which performs its business activities as head holder and coordinator of official statistic system. Regular statistical research are performed and published in that purpose.

OIB – personal identification number

ZOO – the Code of Obligations

OPZ – General Tax Law

ZTD – The Corporations Act

Tax – financial liability of taxable person

Tax number – identification code assigned to a taxable person

Business costs – costs related with entrepreneurs' business activity

# **1. REPORTING AND OTHER LEGAL OBLIGATIONS**

## **1.1 Theoretical Framework**

This chapter provides an insight of all relevant laws governing business operations as well as legal obligations to which business entities are subject in Croatia. The laws concerning Tax System are presented in chapter 2. within this Module.

Croatia is an E.U. member state. Hence, all E.U. regulations are in force in Croatia, while the E.U. directives are covered by the national legislation.

The most important acts, that you should know, are:

### **1.1.1. Relevant laws**

The web portal [Zakon.hr](http://Zakon.hr) provides an insight into all applicable laws in which are included all subsequent amendments and the date when it came into force.

On the web portal [Propisi.hr](http://Propisi.hr) also provides all consolidated text of current applicable laws by areas are available. Web page is updated daily.

#### **1.1.1.1 The Companies Act**

This law stipulates fundamental traders, corporations and sole traders' status regulations on establishing and running business operations by business entities, owners, related parties, economic interest groups, foreign companies' subsidiaries and their status transformation.

Furthermore, obligations such as annual reports, books of account, accounting, balance sheet, legal relationships between shareholders, termination of the company, etc. are set out in this law.

#### **1.1.1.2 Code of Obligations**

By the Code of Obligations, the basic principles and general regulations on all obligation relationships are governed. For those obligation relationships that are governed by other laws, the provisions of the Obligatory Code shall apply for the issues not regulated by those particular laws.

In principle, contracting parties can regulate their obligation relationships freely unless in contravention of the Constitution, compulsory regulations or moral principles.

Unless expressly otherwise provided in the agreement, the provisions of the Obligatory Code shall apply. These provisions shall also apply where the agreement is illegal.

Unless expressly otherwise provided within the industry, the provisions of this Code apply to all types of contracts.

The Code of Obligations is comprehensive. It consists of two volumes. The first of them is labelled General Part, the second one Special Part. In the first volume, explanations on the general characteristics of obligatory relations between participants, financial obligations, compensation, payment deadlines, agreements, limitation period and creditors.

The provisions regarding concluding and interpretation of contract by types (loan, lease, commercial representation, insurance, transport, storage, orders, licence, guarantees etc.) and other specificity and effect of contract are dealt with in the second volume.

### **1.1.1.3 Protection of Personal Data Act**

In Croatia, the protection of personal data is regulated by both the European G.D.P.R. and a special national law, Act on Enforcement of the General Data Protection Regulation.

Subject to this law are the obligations of personal data processors in view of protecting personal data and sensitive personal data. In this respect, Croatian Personal Data Protection Agency is the authority in charge of providing advice to businesses and by whom inspection is conducted. In case of violation, a company may be penalised by this authority.

### **1.1.1.4 Health and Safety at Work Act**

The provisions regulating the safety and health of the employees at their workplaces are listed in the Law on Safety at Work. Here, the rights and the obligations of both employers and employees are defined in view of safe and healthy working conditions including the appropriate measures to be taken in this respect.

This law specifies employer's responsibilities to implement measures for safe work, stipulates workers' rights and duties, planning of joint activities, risk assessment and other obligations. When employing first employee, an entrepreneur shall contact an authorised person (natural or business subject) to implement work safety measures because each new employee must pass exam of work protection and employer must make study. According to the Law on Safety of Work, the study must include: the recording of hazards and harmfulness in the work environment, their assessment (risk) and measures to ensure the safe and healthy work of employees.

### **1.1.2 Reporting**

Reporting shall be conducted in accordance with the applicable laws and regulations.

An annual report shall be submitted by any company to the Ministry of Finance – Tax Department, Financial Agency for statistical purpose till April 30<sup>th</sup>, and to the Financial Agency for the purpose of public notice into Court Registry till June 30<sup>th</sup>.

Its format shall correspond to the business entity's form and its size. A limited liability company, for example, shall complete a balance sheet, a profit and loss statement, corporation tax form, enclosed additional calculations, reports and addendums, including the corresponding notes and decisions.

JOPPD reports of citizens' income and related tax and contributions are submitted to the Croatian Ministry of Finance – Tax Department only via ePorezna system. For some payments reports shall be submitted the same, no later than the next day (employees' salary, income payment etc.). Reports for other payment to the employees and citizens (transport, daily allowance, scholarship, trainee recompense etc.) are submitted no later than 15<sup>th</sup> day after expiration of the month when payment is conducted.

VAT reporting to the Tax Department via ePorezna must be done monthly or every 3 months. However, companies which are doing business with VAT payers from other E.U. countries have to report monthly regardless of the yearly turnover.

#### **1.1.2.1 Reporting for public notice and statistical purpose**

Business entities' data from which are visible last annual financial reports gathered by Financial Agency are published on Ministry of Justice of the Republic of Croatia – Court Registry web page.

Central Bureau of Statistics is authorised for gathering business entities operating data for statistical purpose. Yearly financial reports for statistical purpose shall be submitted to the Financial Agency. Other statistical reports are submitted by certain business entities which are selected with sampling method by Central Bureau of Statistics.

The data acquired by the business entities is used to conduct analyses and calculations of performance indicators, including gross domestic product. Furthermore, based on the data obtained, future economic policies are proposed.

#### **1.1.2.2 Reporting the flows of goods**

Flows of goods between business entities in Croatia and other E.U. members are reported to the Intrastat system. These include commercial transactions, movements of purchase/sale goods, return and replacement of products, as well as all other types of transactions listed on Central Bureau of Statistics website. Excluded from reporting to the Intrastat are services, goods in transit, dispatches and receipts of goods listed in one of the annexes on their website.

All reports shall be submitted electronically. A digital certificate is required, so this shall be obtained by any entrepreneur or authorised person. This can be arranged at Financial Agency.

## **1.2 Important / Exceptions**

Delay in submitting or failing to submit reports prescribed by the law is rather highly penalised (from 10 thousand H.R.K. to 100 thousand H.R.K. for a business entity and from 5 thousand to 20 thousand H.R.K. for the responsible person) - the amount depends on the size of the company and type of the report.

All business entities have to keep an archive of the business documentation.

What documentation should be stored and how much time it must be kept is defined by the following laws:

- Accounting Act;
- Regulations on Accounting Act;
- The General Tax Law;
- List of Croatian State Archive.

A Documentation which must be kept permanently:

- annual reports (the balance sheets prepared for Tax Department and Financial Agency);
- payrolls and all documentation related to the salaries calculation;
- contracts for the purchase and sale of real estate.

All other documentation must be kept at last 11 years.

- complete documentation of bookkeeping events: issued invoices, invoices received, contracts for the purchase and sale, contracts of short-term financial investments and short-term loans, transaction accounts, certain calculations and other.

## **1.3 Tips from professionals**

It is recommended that foreign investors leave the preparation of reports to experts from accounting services which have the knowledge and experience in making and presenting all the specific data required in the reports.

## **1.4 Additional information**

The recommended further reading on reporting and other legal obligations:

Consolidated law texts of “Official Gazette” where past versions, modifications and amendments of certain laws are published.

Zakon-HR. *Consolidated text* (online). Available on: <https://zakon.hr/> (09.08.2018.)

List of all current Regulations – consolidated texts.

Propisi.hr “*Croatian legal portal with current consolidated Regulations*” (online). Available on: <https://www.propisi.hr/> (09.08.2018.)

Corporations Act.

Zakon.hr “*Corporation Act*” (online). Available on: <https://www.zakon.hr/z/546/Zakon-o-trgova%C4%8Dkim-dru%C5%A1tvima> (09.08.2018.)

More about main elements of Personal Data Protection provision:

EU GDPR Portal: Powered by Trunomi (online). Available on: <https://www.eugdpr.org/> (09.08.2018.)

GDPR Implementation Law

Zakon.HR. *GDPR Implementation Law* (online). Available on: <https://www.zakon.hr/z/1023/Zakon-o-provedbi-Op%C4%87e-uredbe-o-za%C5%A1titi-podataka>, (09.08.2018.)

Safety at Work Law

Zakon.HR, *Safety at Work Law* (online). Available on: <https://www.zakon.hr/z/167/Zakon-o-za%C5%A1titi-na-radu> (09.08.2018.)

Safety at work – employers' obligations (short guide):

Center for work safety. „Safety at work – employers' obligations (short guide)“ (online). Available on: <http://centarznr.hr/strucni-clanci/hrvatska/Zatita-na-radu-obveze-poslodavca-kratki-vodi> (09.08.2018.)

Statistical database with detailed indicators by category

Central Bureau of Statistics. *Statistical database* (online). Available on: [https://www.dzs.hr/hrv/system/stat\\_databases.htm](https://www.dzs.hr/hrv/system/stat_databases.htm) (09.08.2018.)

Intrastat form and detailed instructions.

Central Bureau of Statistics (online). Available on: <https://www.dzs.hr/hrv/intrastat/intrastat.htm> (09.08.2018.)

Central Bureau of Statistics – all forms

Central Bureau of Statistics. *Central Bureau of Statistics – forms* (online). Available on: <https://www.dzs.hr/> (09.08.2018.)

EU Bureau of Statistics information.

Central Bureau of Statistics. *EUROSTAT-ESDS* (online). Available on: <https://www.dzs.hr/Eurostat-ESDS.htm> (09.08.2018.)

Financial Agency (FINA) – services and information for business entities.

FINA. Services for business entities (online). Available on: <https://www.fina.hr/default.aspx?sec=915> (09.08.2018.)

Registry of business entities invoices, annual reports and other data  
Financial Agency (FINA). *Registry* (online). Available on:  
<https://www.fina.hr/Default.aspx?sec=971> (09.08.2018.)

Registry of business entities database and financial reports.  
Ministry of Justice of the Republic of Croatia. *Court registry* (online). Available on:  
<https://sudreg.pravosudje.hr/registar/f?p=150:1> (09.08.2018.)

ePorezna – information and instructions for use  
Ministry of finance. Tax Department. *Tax Department web portal*. (online). Available on:  
<https://e-porezna.porezna-uprava.hr/Upute/G2B/ePorezna%20G2B-%20Korisni%C4%8Dki%20priru%C4%8Dnik.pdf> (09.08.2018.)

## **Quiz and exercise**

### **Quiz:**

1. Which reports must entrepreneur file and regularly submit during a year to the relevant authorities?
  - a) PDV report (Value added tax) and JOPPD forms
  - b) PD form (Company Income tax) and JOPPD forms
  - c) JOPPD forms and PR-DOH (Personal Income tax)
  - d) PDV report (Value added tax) and PD form (Company Income tax)
  
2. Which of the following documentation must entrepreneur keep permanently?
  - a) Annual reports
  - b) Issued invoices
  - c) Transaction accounts
  - d) Contracts of short-terms loans

### **Exercise:**

In relevant law find the chapter that defines business entities' obligations about annual reports.

Write your answer: \_\_\_\_\_

### **Please, rate your answer:**

- d) Correct
- e) Partially correct / Incomplete
- f) Incorrect



## **2 TAX SYSTEM**

### **2.1 Theoretical Framework**

A taxable person is any legal or natural person independently performing any kind of business at any place, regardless of its purpose or result.

For companies that are registered in Croatia and owned by non-residents, the applicable tax rules are the same as for local companies.

#### **2.1.1 Tax procedure and taxable persons**

The General Tax Law is regulating relationship between taxable persons and tax authorities, and tax procedure, meaning in particular:

- Tax billing, assessment, payment, repayment, tax return, supervision and law enforcement (collection of taxes);
- Rights and obligations of taxable persons, state administration and other bodies in charge of collecting taxes in accordance with the legislation, and other persons in the process of collecting taxes;
- Safeguarding of the data acquired in the tax collecting process; and
- Mutual assistance in tax collection and data exchange with the other EU Member States, with third countries and territories.

Taxable persons are both legal and natural persons.

##### **2.1.1.1 International taxation**

Residents of Croatia have been taxed based on world income, meaning their taxation is based on their taxable income irrespective of where it has been generated, within the national borders or abroad. In addition to the provisions of Croatian tax legislation, the international treaties on the avoidance of double taxation represent an important mechanism for preventing double taxation of both natural and legal persons' earnings.

Any possible privileges and immunities belonging to international organisations and missions or their employees and members are based on either the national legislation or international treaties ratified by Croatia.

To see whether Croatia has signed an Agreement on Avoidance of Double Taxation with a third country, the interested party shall consult the Ministry of Finance of Republic Croatia website. The 2018 list is available on web page Tax Department.

### **2.1.1.2 Taxation of natural persons**

Income tax is a tax on the personal income of natural persons of residents of Croatia. Tax administration makes a calculation of personal income tax based on official records, data sent by employers and data sent by natural persons. The resulting of assessment (calculation) is sent to natural persons, who have a possibility to complain in case of potential missing or wrong data.

Non-residents of Croatia are only obliged to pay income tax on income, they earn in Croatia.

They can be obliged for payment of following tax and insurance contributions:

- Based on salary for non-residents in the Republic of Croatia during employment;
- Self-employment, liberal professions, agriculture and forestry;
- Profit of legal non-resident in the Republic of Croatia;
- Non-residents' capital income;
- Non-residents' insurance income;
- Non-residents' second earning income;
- Non-residents' real estates and movables rent income;
- Other tax.

Foreigners, property owners in Croatia, as well as domestic people, by real estate purchase or sale are liable for payment of property tax in accordance with the Real estate Law and Income Tax Law.

For holiday homes, tax payment in accordance with Local Tax Law, and other remunerations in accordance with municipal and town's regulations.

Real estate tax rate is 4%. Tax is paid by buyer.

Holiday homes tax rate is between 5% and 15% by m<sup>2</sup> for usable area, depending on town or municipal where real estate is located.

Agricultural and building areas are also part of real estates.

### **2.1.2 Value Added Tax**

Value Added Tax (called PDV in Croatia) is governed by the Value Added Tax Act and Regulations, which are fully compliant with a Directive 2006/112/EZ .

A taxable person for value added tax pays PDV on:

- All services and goods delivered within its business activities in Croatia;
- Goods acquisition if delivered by other tax payer from E.U.;
- Provided services by tax payers from E.U.;
- Import (from third country) and acquisition (from E.U.) of new means of transport whether distributor is tax payer or not.

Exceptions in VAT taxation are defined by Article 5 Tax Act.

By V.A.T., a difference between purchase and sales value is taxed (added value on purchase value). This type of tax applies to goods and services at all stages of trade from production, wholesale, retail to final consumption.

In principle, V.A.T. is levied and paid by the taxable person at each delivery of goods or services or any transaction considered by the V.A.T. legislation as such, with the exception of certain expressly specified transactions which are exempt from V.A.T..

In accordance with the national V.A.T. legislation, V.A.T is charged for deliveries of goods and services at a general rate of 25%, except for those goods and services for which a reduced rate of 5% and 13% applies. The list of goods and services subject to a reduced V.A.T. rate is described in the Vat Value Added Tax Law, article 38, and Regulations on Value Added Tax article 47.

A taxable person is obliged to pay V.A.T. to the state budget on a monthly or 3-monthly basis.

#### **2.1.2.1 Entrance into the VAT system**

When acquiring the status of a sole trader or starting up a company, the entrepreneur— may freely decide whether to enter the V.A.T. scheme or not. The integration becomes compulsory as soon as the amount of taxable turnover in the last year exceeds 300 thousand H.R.K.. Above this threshold, integration into the V.A.T. system is unconditional (procedure for obtaining V.A.T. number and entering into the system is described in Unit 3).

#### **2.1.3 Corporate Income Tax and Personal Income Tax**

Taxes are paid by companies based on their profits – Corporate Income Tax. However, once the profit is distributed among the owners or shareholders, these are charged Capital Gains Tax (CGT).

##### **2.1.3.1 Corporate Income Tax**

Systematically regulated by the Corporate Income Tax Act, the Corporate Income Tax is the fundamental form of direct corporate taxation. The object of this taxation is the profit from business operations performed by either a resident or a non-resident within or via a business unit located in Croatia (Corporate Income Tax) and the incomes sourced in Croatia for which the tax is charged based on the source (i.e. tax based on the tax withholding calculation).

For determining profits attained by a legal entity, the revenues and expenditures established in the profit and loss sheet showing the revenues, expenses and profit or loss are recognized on a legal basis and in accordance with the applicable accounting standards.

In 2018, the general corporate income tax rate is set at 12% (for entities that generate income less than 3 million H.R.K.) and 18% (for entities that generate income above 3 million H.R.K.) and the tax withholding base rate is 15%. Entrepreneurs who generate transactions till 3 million H.R.K. and V.A.T. is charged based on charged amount, can choose to calculate Income tax based on charged amount.

The amount of profit presented in the income statement is corrected for certain increase and decrease which include different tax reliefs. Entrepreneur should be informed of all possibilities by his/her accountant.

The taxable profit of a non-resident's business unit in Croatia is defined as the profit attributable to that business unit. An entity may be attributed the profits which could be expected to be held by that establishment if it were an independent taxpayer performing the same or similar activity or transactions. The revenues generated by performing business activities or transactions within or via a non-resident's business unit located in Croatia and the actual costs incurred for the purposes of this business unit, including administrative and general administrative expenses, shall be attributed to this business unit whether incurred in Croatia or abroad.

Sole trader who keeps his accounts in accordance with the Law on Accounting, tax calculations base is determined in the same way as business entities.

This entrepreneur is named sole proprietor and is enrolled into Court Registry by personal choice (if the amount of his annual income is over 2 million H.R.K.) or by law (if the amount of his annual income is over 15 million H.R.K.).

### **2.1.3.2 Personal Income Tax**

Sole trader is a natural person who is independently performing business activities. Taxation of sole traders is governed by the Personal Income Tax Act.

The essential elements underlying the definition of sole trader are the following:

- Business is performed independently, autonomously and permanently (a one-off or occasional transaction is not a business activity).
- Business is performed by the taxable person for his/her own account and benefits, upon his/her full responsibility and by guaranteeing with all his/her assets.

The tax calculation base of the Taxable Income from Business Operations for a sole trader is determined by following one of the two options:

- on the basis of reported data in business books, or
- in accordance with the decision of the Tax administration (flat-rate taxation).

For those sole traders who keep their accounts, tax calculation base is determined as difference between paid taxable costs and charged income, and as such is corrected for reliefs or unacknowledged expense prescribed by law. Income tax rates are progressive (24% and 36% on the tax bases which are regulated by the law on personal income tax).

Annual income tax registration is submitted by February 28<sup>th</sup> or 29<sup>th</sup> next year.

Flat-rate taxation is simplified way of determining the tax base. This is derived from the actual tax-recognised revenues, while the expenditures are determined at a flat-rate amounting to 85% of the generated tax-recognised revenues-

A taxable person may opt for this method of determining the tax base only when fulfilling following conditions:

- Performing one of business activities for which flat-rate taxation is estimated by Flat-rate taxation Regulation
- That his/her Income from Business Operations has not exceeded 300 thousand H.R.K. per year
- Tax Department is informed on time about the choice of this calculation mode.

When applying flat-rate taxation actual expenditures, tax incentives or tax losses from previous tax periods are not taken into account. In accordance with Article 7 of Flat-rate taxation Regulation a taxable person having opted for the tax base with respect to the standardised expenditure is not obliged to keep books and submit an annual report. The taxpayer is obliged to keep only the Book of issued invoices, and he need to submit Annual report on realized income (Form PO-SD) by 15th January for previous year.

The flat-rate taxation amounts 1.8% of generated income realization (85% of generated income are flat-rate tax-recognised expenses, and 15% is taxable revenue - income which is taxable on the 12% rate).

### **2.1.3.3 Capital Income and Capital Gains**

Capital income includes income on the basis of:

- interests;
- assets exemption and use of services imposed on current period profit;
- capital gains;
- profit share realised by assigned or optional purchase of its own stocks;
- dividends and shares of profit on the basis of capital share.

Capital gains are defined in Income Tax Law (article 67.). They include disposal of the financial assets (portable securities, capital shares, owners share income in the case of liquidation process, money market instruments etc.). According to this Law, disposal means: sale, exchange, giving away and other transmissions. Capital gain is difference between acquisition value and market value of financial assets.

Capital income tax is calculated by tax rate:

- 12% on interests, dividends, income share and capital gains;
- 24% on shares in gain realised by assignment or purchase of shares;
- 36% on asset exemption and use of service imposed on current period profit.

Calculated tax is increased for local income tax if it is determinate by taxpayer's residence city/district.

In the E.U., transfers of assets, share swaps, mergers and divisions between companies with an office in Croatia or other E.U. countries (including European Open Companies – S.E.) are subject to the following rights according to the Corporate Tax Law:

- at the moment of the transfer of assets (i.e. transactions where a company transfers without the liquidation one or more of its activities to another company (Buyer Company) or to an entirely new undertaking in return for receiving or transferring inventories representing the capital of the recipient), the transaction shall be considered tax neutral (deferred from tax) under the conditions laid down by law;
- following an exchange of equity interests (i.e. transactions where the acquiring company receives the stocks of the acquired company in exchange for its own inventories and thus acquires most of the rights in the acquired company), the shareholder of the acquired company is exempt from taxes on profit and loss due to the exchange of shares when no cash payments are received;
- following a merger or dissolution of a company (for example, due to a change in the status of a group of companies in order to establish a new company or to divide the existing companies into several new companies in accordance with the Companies Act), the transaction is considered to be tax neutral (deferred tax) under the conditions laid down by law.

#### **2.1.3.4 Tax incentives**

In certain cases, the basis for the payment of corporate income tax or natural persons' income tax can be reduced through different relief (state support for education and training, research and development projects, reliefs and exemptions for assisted areas based on Corporate Income Tax Law and Personal Income Tax Law) and through different tax rate deduction based on Investment Enhance Law.

Based on current regulations into tax deductible business costs are also included employers' costs for voluntary pension insurance scheme for its employees during one calendar year till the amount of 6 thousand H.R.K.. The supplementary pension insurance shall be paid to the pension plan provider located in Croatia or another E.U. country.

## **2.2 Important / Exceptions**

The tax year in Croatia ends on December 31<sup>st</sup>.

Corporation income tax payer must file a yearly report on which Corporate Income Tax is calculated, by April 30<sup>th</sup> next year.

Personal income tax payer must file a yearly report on which Personal Income Tax is calculated, by February 28<sup>th</sup> or 29<sup>th</sup> next year.

Reports on V.A.T. have to be filed in monthly or every 3 months.

The corresponding reporting is done electronically on website ePorezna. A digital certificate is required, which is obtained on the basis of a written request.

If entrepreneur, who is not obliged of VAT payment, calculates by mistake V.A.T. on his invoice has an obligation of sending report and payment.

### 2.3 Tips from professionals

The choice to opt for voluntary inclusion in the V.A.T. system or not, depends on how and with whom the business is running. Should the entrepreneur decide to become a V.A.T. payer, he/she shall not forget to charge the applicable V.A.T. in addition to the net price of his/her products or services. This means that in the end the product may turn more expensive for the customer. In the business - customer context, this higher price may pose a barrier to business. For a company operating with V.A.T. payers, however, charging V.A.T. usually turns more favourable for all partners since following the end of a specified time period (monthly or quarterly), the entrepreneur is obliged to pay the VAT collected minus the amount of V.A.T. paid for purchasing the necessary business assets (based on charged or collected realization – depending on the choice)

Like most of the Croatian companies, it is advisable that also foreign investors leave preparation of the required tax reports to the experts in accounting services.

### 2.4 Additional information

If you want to learn more, here is the list of the recommended further reading about the tax system in Croatia:

Laws:

Zakon.HR, "Corporate Income Tax Law" (online). Available on: <https://www.zakon.hr/z/99/Zakon-o-porezu-na-dobit> (28.09.2018.)

Zakon.HR. "Personal Income Tax Law" (online). Available on: <https://www.zakon.hr/z/85/Zakon-o-porezu-na-dohodak> (28.09.2018.)

Zakon.HR. "Value Added Tax Law" (online). Available on: <https://www.zakon.hr/z/186/Zakon-o-porezu-na-dodanu-vrijednost> (28.09.2018.)

Zakon.HR. "Real estate Tax Law" (online). Available on: <https://www.zakon.hr/z/69/Zakon-o-porezu-na-promet-nekretnina> (28.09.2018.)

Zakon.HR. "General Tax Law" (online). Available on: <https://www.zakon.hr/z/100/Op%C4%87i-porezni-zakon> (28.09.2018.)

## Regulations:

Ministry of Finance. Tax Department. “*Corporate Income Tax Regulations*” (online). Available on: [http://www.porezna-uprava.hr/hr\\_propisi/\\_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro23](http://www.porezna-uprava.hr/hr_propisi/_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro23) (28.09.2018.)

Ministry of Finance. Tax Department. “*Personal Income Tax Regulations*” (online). Available on: [http://www.porezna-uprava.hr/hr\\_propisi/\\_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1657](http://www.porezna-uprava.hr/hr_propisi/_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1657) (28.09.2018.)

Ministry of Finance. Tax Department. “*Value Added Tax Regulations*” (online). Available on: [http://www.porezna-uprava.hr/hr\\_propisi/\\_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1472](http://www.porezna-uprava.hr/hr_propisi/_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=pro1472) (28.09.2018.)

Official Gazette. “*Flat-rate taxation Regulation*” (online). Available on: [https://narodne-novine.nn.hr/clanci/sluzbeni/full/2017\\_01\\_1\\_5.html](https://narodne-novine.nn.hr/clanci/sluzbeni/full/2017_01_1_5.html) (28.09.2018.)

## More about non-residents

Ministry of Finance of the Republic of Croatia. Tax Department. “*Non-residents*” (online). Available on: <https://www.porezna-uprava.hr/nerezdineti/Stranice/default.aspx> (10.08.2018.)

## Tax on vacation house

Zakon.hr. “*The law on local houses*” (online). Available on: <https://www.zakon.hr/z/875/Zakon-o-lokalnim-porezima> (27.09.2018.)

## ePorezna

Ministry of Finance. Tax Department. “*Unique portal of tax administration*” (online). Available on: <https://e-porezna.porezna-uprava.hr/Prijava.aspx?ReturnUrl=%2f> (28.09.2018.)

## More about tax on capital income

Ministry of Finance. Tax Department. “*Taxation of capital income*” (online). Available on: [https://www.porezna-uprava.hr/HR\\_publicacije/Prirucnici\\_brosure/Kapital\\_163.pdf](https://www.porezna-uprava.hr/HR_publicacije/Prirucnici_brosure/Kapital_163.pdf) (28.09.2018.)

## Double taxation treaty

Ministry of Finance. Tax Department. “*Double taxation treaty*” (online). Available on: <https://www.porezna-uprava.hr/bi/Stranice/Dvostruko-oporezivanje.aspx> (28.09.2018.)

## Reliefs, deductions and incentives

Ministry of Finance. Tax Department. “*Reliefs, deductions and incentives*” (online). Available on: [http://www.porezna-uprava.hr/baza\\_znanja/Stranice/PorezNaDobitOslobodjenja.aspx](http://www.porezna-uprava.hr/baza_znanja/Stranice/PorezNaDobitOslobodjenja.aspx) (28.09.2018.)

## Form PO-SD



Ministry of Finance. Tax Department. *“Report on a flat income”* (online). Available on: <https://www.porezna-uprava.hr/Dokumenti%20vijesti/Obrzac%20PO-SD.pdf> (27.09.2018.)

Form PD – Corporate Income Tax Return

Ministry of Finance. Tax Department. *“PD Form”* (online). Available on: [https://www.porezna-uprava.hr/HR\\_obraci/Documents/POREZ%20NA%20DOBIT/PD.pdf](https://www.porezna-uprava.hr/HR_obraci/Documents/POREZ%20NA%20DOBIT/PD.pdf) (28.09.2018.)

Form DOH. Personal income tax return.

Ministry of Finance. Tax Department. *“DOH Form”* (online). Available on: [https://www.porezna-uprava.hr/HR\\_obraci/Documents/POREZ%20NA%20DOHODAK/DOH.pdf](https://www.porezna-uprava.hr/HR_obraci/Documents/POREZ%20NA%20DOHODAK/DOH.pdf) (28.09.2018.)

Form ZPP-DOH . Application for recognition rights in particular proceedings.

Ministry of Finance. Tax Department. *“ZPP-DOH Form”* (online). Available on: [https://www.porezna-uprava.hr/HR\\_obraci/Documents/POREZ%20NA%20DOHODAK/ZPP-DOH.pdf](https://www.porezna-uprava.hr/HR_obraci/Documents/POREZ%20NA%20DOHODAK/ZPP-DOH.pdf) (28.09.2018.)

Form PDV

Ministry of Finance. Tax Department. *“PDV Form”* (online). Available on: [https://www.porezna-uprava.hr/hr\\_propisi/Obrasci/porez%20na%20dodanu%20vrijednost/49742\\_9/PDV.pdf](https://www.porezna-uprava.hr/hr_propisi/Obrasci/porez%20na%20dodanu%20vrijednost/49742_9/PDV.pdf) (28.09.2018.)

## 2.5 Quiz and exercise

### Quiz:

1. What is the current VAT rate in Croatia?
  - a) General rate of 20%, reduced rate of 5% and 13%
  - b) General rate of 25%, reduced rate of 5% and 13%
  - c) General rate of 22%, reduced rate of 3% and 15%
  - d) General rate of 25%, reduced rate of 3% and 15%
  
2. Which business entity must register into the VAT system?
  - a) Entity, whose amount of taxable turnover in the last year exceeds 85 thousand HRK
  - b) Entity, whose amount of taxable turnover in the last year exceeds 230 thousand HRK
  - c) Entity, whose amount of taxable turnover in the last year exceeds 250 thousand HRK
  - d) Entity, whose amount of taxable turnover in the last year exceeds 300 thousand HRK
  
3. What is the rate of Company Income Tax in Croatia?
  - a) 12% and 18%
  - b) 18%
  - c) 22% and 28%
  - d) 24% and 36%
  
4. In which case can a sole trader opt for flat rate taxation?
  - a) In case that with respect to the standardised expenditure his/her Taxable Income from Business Operations has not exceeded 300.000,00, he is performing business activity stipulated by Flat-rate tax Regulations and when registering into taxpayers' registry has reported flat-rate taxation model.
  - b) In case that with respect to the standardised expenditure his/her Taxable Income from Business Operations has exceeded 300 thousand HRK he is performing business activity stipulated by Flat-rate tax Regulations and when registering into taxpayers' registry has reported flat-rate taxation model
  - c) In case he/she is a new entrepreneur and has proof of this calculation mode selection when registering.
  - d) In case he/she invests in new business services or products.
  
5. Which types of income falls into taxation from Capital Gains?
  - a) Income from interest, dividends and lottery winnings.
  - b) Income from interest and portable securities
  - c) Income from money market instruments and portable securities
  - d) Income from money market instruments and lottery winnings.
  
6. In the relevant law find to which of the listed goods the reduced VAT rate implies!
  - a) food, entrance to cultural and sports events, TV production, burial and cremation services
  - b) books, renting of accommodation facilities in hotels and similar accommodation facilities, use of sports objects, law counselling
  - c) edible oils, books, academic journals, seeds and seedlings
  - d) accounting services, books, renting of accommodation facilities in hotels and similar accommodation facilities, the transport of persons and their personal luggage

**Exercise:**

In the relevant online resources check if Uruguay has a valid Agreement on Avoidance of Double Taxation with Croatia?

Write your answer: \_\_\_\_\_

**Please, rate your answer:**

- a) Correct
- b) Partially correct / Incomplete
- c) Incorrect

## **3 TAX REGISTRATION**

### **3.1 Theoretical Framework**

Any business entity or natural person planning to do business in Croatia shall enrol in the Tax Register and obtain a tax number.

#### **3.1.1 Tax Register**

Tax Register is a unified, computerised database of taxpayers connected with other records, managed by the Ministry of Finance of the Republic of Croatia – Tax Department.

The entry into the Tax Register is done following an application or ex officio. Once registered in the Tax Register, the subject of registration is assigned a tax number.

#### **3.1.2 Tax Number**

Personal identification number (O.I.B.) is in the same time a tax number. A tax number is an identification mark assigned to a taxable person and used in connection with any of the taxes. Its purpose is to enable a uniform data definition and connection within tax records and other reports managed by the tax authority. It is an eleven-digit, randomly selected number (i.e. the first ten digits being randomly selected with an eleventh one as the control number).

### **3.2 Conditions**

The following persons or entities shall enrol in the Tax Register:

- anyone subject to enrolment in the Court Register;
- any natural person with permanent or temporary residence in Croatia, who has obligation to pay tax, contribution or other payments due the government;
- any individual sole trader;
- any legal entity registered in Register of non profit organizations;
- any legal entity or natural person not having a registered office or other registered form in Croatia and performing an activity within the Croatian territory;
- any direct user of the state or municipal budget.

### **3.3 Procedure**

#### **3.3.1 Procedure for obtaining of a business entity Tax Number**

A Personal identification number (O.I.B.) is assigned to the business legal entities and sole traders automatically during the registration procedure. This is, at the same time, a tax number.

Natural persons must register in the Register of taxpayer by themselves before commences business. Their Personal identification number (O.I.B.) is, at the same time, a tax number.

### **3.3.2 Procedure for obtaining of a business entity VAT and VAT ID number**

When an entrepreneur chooses or reaches the must conditions to enter the V.A.T. system, he/she must send to the Tax Department the completed P-PDV form, which can be found on the web portal ePorezna.

In case that a company is not established in Croatia and will perform a taxable supply of goods or services on the territory of Croatia, the same form P-PDV form must be filled in. Entrepreneur can send a request for V.A.T. I.D. (European tax number – for the purpose of business transactions on the European territory) as soon as he enters in V.A.T. system, or later when necessary.

These transactions can be performed when V.A.T. I.D. is issued by Tax Department. V.A.T. I.D. contains V.A.T. number with prefix HR. P-PDV form must be submitted.

When V.A.T. I.D. number is issued entrepreneur is automatically enrolled in V.I.E.S. system (electronic system which provides browsing and validity control of V.A.T. I.D. of any collaborator on European market.).

### **3.3.3 Procedure for obtaining of a Personal Tax Number**

Natural person register themselves in the Register of taxpayer through the Form RPO.

Natural persons, non-resident, with a Form RPO need to submit Request for the determination and granting Croatian Personal identification number (O.I.B.).

## **3.4 Documentation needed**

### **3.4.1 Documentation needed for a business entity Tax Number**

Documentation, needed for registration of a business entity is described in Module 1.

### **3.4.2 Documentation needed for a business entity VAT and VAT ID**

For issuing V.A.T. and V.A.T. I.D. number, it is required to submit “Request for registering for the V.A.T. purpose” form. Business entities which have submitted required documentation to the authorized Tax Department (more about it in lesson 3.8) do not have obligation to add any other documentation.

Request for registering for the V.A.T. purpose or issuing V.A.T. I.D. number (Form P-PDV) is available on the website of Tax Department.

With request for registration for the purpose of V.A.T. or V.A.T. I.D. natural person must submit also the documentation specified in lesson 3.4.3., unless it is already submitted when fulfilling form for the purpose of entrance into taxpayers registry

### **3.4.3 Registration of a Personal Tax Number**

R.P.O. form is submitted by natural person beside his/her personal identification document and document under which tax obligation was created (for example: rental contract, document of craft opening and other).

Non-resident, beside RPO form and request for Croatian personal identification number (O.I.B.) assignment has to submit and:

- Passport or European identity card;
- Foreign tax authorities certificate of taxpayer’s status;
- Landlord’s status statement (in case of renting);
- Tax representative appointment documentation (if necessary);
- Mandatory authorization endorsement (if necessary).

### **3.5 Where to apply?**

A business subjects are included in the Register of taxable persons automatically, during the registration procedure, when assigned to the business legal entities.

Natural persons must register in the Register of taxpayer by themselves before commences business in the tax authority office.

Application for registration for V.A.T. purposes shall be submitted through the internet portal ePorezna.

Persons from other countries can contact Tax Authority via e-mail: [odjel.stranci@porezna-uprava.hr](mailto:odjel.stranci@porezna-uprava.hr).

### **3.6 Timeframe**

Tax number and V.A.T. number can be obtained in 1 – 2 days.

For V.A.T. I.D. number Tax Administration issues a decision in 15 days.

### **3.7 Costs**

When registering into tax payers registry and obtaining V.A.T. and V.A.T. I.D. there are no costs.

### **3.8 Important/Exceptions**

Taxpayer non-resident, whose head office is in E.U., registration for V.A.T. purpose request is filled on P-PDV form and submitted to the Tax administration. He/she can appoint tax representative.

Taxpayer non-resident, whose head office is outside E.U., when registering for V.A.T. purpose must appoint tax representative except in cases specified in Article 126. of V.A.T. Law.

Beside representative's identification document, decision on entry into the authorized registry, head office's authorised tax department certificate and Croatian O.I.B., statement or proof of attention of performing business in Croatia must be submitted.

Tax number can be issued to the legal representative or his/her authorised person.

Person from other E.U. member states can contact Tax department via e-mail: [odjel.stranci@porezna-uprava.hr](mailto:odjel.stranci@porezna-uprava.hr).

Every business entity should, before business commence, provide following documentation to his authorised referent:

- Decision on entry into the authorized registry;
  - Central Bureau of Statistics decision of classification;
  - Bank contract;
  - Business premises rent contract;
  - Accounting services contract
- and
- On referent's request fulfil „Form of general data“ (Tax department's internal document – not available on their web page).

### 3.9 Tips from professionals

On the internet portal ePorezna there are instructions, forms and a list of necessary documentation, however, tax authority office should be contacted (for possible exemption from the rules).

We advise you to study and fill in, for practice, all the presented forms in order to know which data and documentation is required from foreign investor.

### 3.10 Additional reading

More useful information can be found on the following suggested links:

Application Natural person in the Register of taxpayer through the Form RPO  
Ministry of finance. Tax Department. “*Application for entry in the Taxpayer register*” (online).

Available on: [https://www.porezna-uprava.hr/hr\\_propisi/Obrasci/porez%20na%20dohodak/56347\\_3/RPO.pdf](https://www.porezna-uprava.hr/hr_propisi/Obrasci/porez%20na%20dohodak/56347_3/RPO.pdf) (14.08.2018.)

Registering for the VAT purpose and VAT calculation obligations for non-resident  
Ministry of finance. Tax Department. “*Value added tax – Registering for the Vat purpose, VAT ID and VIES*” (online). Available on: [https://www.porezna-uprava.hr/HR\\_publicacije/Lists/mislenje33/Display.aspx?id=19151](https://www.porezna-uprava.hr/HR_publicacije/Lists/mislenje33/Display.aspx?id=19151) (28.09.2018.)

Form "P-PDV"

Ministry of finance. Tax Department. “*Request for registering for the VAT purpose*” (online). Available on: [https://www.porezna-uprava.hr/HR\\_obrasci/Stranice/default.aspx?RootFolder=%2FHR%5Fobrasci%2FDocuments%2FPOREZ%20NA%20DODANU%20VRIJEDNOST&FolderCTID=0x01200082AADAB3E9B1B84EB3D3A7BC7DDC825400C74F17A6F842C94B8986BEB33A1EE2EC&View={2AA7CC9D-9CD2-4433-AE18-D051E7E082F8}](https://www.porezna-uprava.hr/HR_obrasci/Stranice/default.aspx?RootFolder=%2FHR%5Fobrasci%2FDocuments%2FPOREZ%20NA%20DODANU%20VRIJEDNOST&FolderCTID=0x01200082AADAB3E9B1B84EB3D3A7BC7DDC825400C74F17A6F842C94B8986BEB33A1EE2EC&View={2AA7CC9D-9CD2-4433-AE18-D051E7E082F8}) (14.08.2018.)

Form P-PDV - English language

Ministry of finance. Tax Department. “*P-PDV FORM (Eng.)*” (online). Available on: [http://www.porezna-uprava.hr/en/EN\\_obrasci/Documents/P-PDV\(English\).pdf](http://www.porezna-uprava.hr/en/EN_obrasci/Documents/P-PDV(English).pdf) (28.09.2018.)

Form P-PDV - German language

Ministry of finance. Tax Department. “*P-PDV FORM BLATT(Deut.)*” (online). Available on: [http://www.porezna-uprava.hr/en/EN\\_obrasci/Documents/P-PDV\(German\).pd](http://www.porezna-uprava.hr/en/EN_obrasci/Documents/P-PDV(German).pd) (28.09.2018.)

More about PDV ID number:

SOLO. “*Blog+news*” (online). Available on: <https://solo.com.hr/blog/iako-niste-u-sustavu-pdv-a-evo-kada-ipak-morate-imati-pdv-broj/154> (18.08.2018.)



A declaration of status renters

Ministry of finance. Tax Department. “*A declaration of status renters*“ (online). Available on: [http://www.porezna-uprava.hr/PdviEu/Documents/Izjava%20o%20statusu%20iznamljivaca%20nerezidenta%20\(13.07.2015.\).pdf](http://www.porezna-uprava.hr/PdviEu/Documents/Izjava%20o%20statusu%20iznamljivaca%20nerezidenta%20(13.07.2015.).pdf) (27.09.2018.)

Ministry of finance. Tax Department. “*A method of determining the residence for tax purposes*“ (online). Available on: <https://www.porezna-uprava.hr/Gradani/Stranice/UtvrdivanjeRezidentnosti.aspx> (28.09.2018.)

A Form for OIB assignment

Ministry of finance. Tax Department. “*Request for determination and assigning personal identification number*“ (online). Available on: [https://www.porezna-uprava.hr/HR\\_OIB/Documents/zahtjev-OIB.pdf](https://www.porezna-uprava.hr/HR_OIB/Documents/zahtjev-OIB.pdf) (28.09.2018.)

PDV ID number for taxpayers from other EU member country

Ministry of finance. Tax Department. “*PDV ID number for taxpayers from other EU member country*“ (online). Available on: <http://www.porezna-uprava.hr/PdviEu/Lists/PDVEU/Vijest.aspx?ID=7&RootFolder=%2FPdviEu%2FLists%2FPDVEU&Source=http%3A%2F%2Fwww.porezna-uprava.hr%2FPdviEu%2FStranice%2FPDViEU.aspx> (28.09.2018.)

Ministry of finance. Tax Department. Contact for persons from other EU member states  
e-mail: [odjel.stranci@porezna-uprava.hr](mailto:odjel.stranci@porezna-uprava.hr).

## Quiz and exercise

### Quiz:

1. Who of the listed doesn't need a tax number?
  - a) Natural person with permanent or temporary residence in Croatia,
  - b) Natural person without permanent or temporary residence in Croatia, earning in Croatia
  - c) Individual sole trader;
  - d) Natural person without permanent or temporary residence in Croatia, without earning in Croatia
  
2. Is the PDV ID number acquisition possible without personal presence of the company representative?
  - a) Yes, if administrative fee is paid
  - b) Yes, if the Form is signed by company legal representative
  - c) No
  - d) No, the owner of the company need to be present

### Exercise:

Fill in the form P-PDV (VAT registration form) for an imaginary foreign natural person.

**Write your answer:** \_\_\_\_\_

### Correct answer:

#### Please, rate your answer:

- a) Correct
- b) Partially correct / Incomplete
- c) Incorrect

## **4 BUSINESS OPERATING COSTS**

### **4.1 Theoretical Framework**

Each company bears business operating costs, e.g. for the purchase of equipment, materials, services, payrolls, and other. Here-below, the costs arising from legal obligations are presented.

In terms of accounting, the following criteria apply to classify the costs:

1. material costs (raw materials, materials, electricity, stationery and the like);
2. costs of services (production of products, transport, rent, advertising and the like);
3. the depreciation (equipment, vehicles, facilities, and other).

A company bears fixed and variable costs. The fixed ones, such as electricity, the Internet, telecommunications, utilities, depreciation, licences, subscriptions etc. remain permanent. The variable ones are changing proportionally to the volume of operations. These include direct or indirect costs associated with a product, such as the cost of raw materials.

#### **4.1.1 Social security costs for sole traders and unemployed board members and managers**

##### **4.1.1.1 Sole Trader - Natural Person**

A sole trader is obliged to pay a social security contribution monthly. These include:

- Mandatory Pension insurance;
- Mandatory Health insurance;
- Contribution on Health protection at Work.

Contributions shall be payable by the 15th day of the month for the previous month.

The amount base of this contributions are different, depending on the type of independent activity.

Datas on the amount of base and the total amount of monthly obligations for 2018.year are published on website Croatian Chamber of Craft.

Sole trader which keeps its books according to the Law on Corporation Tax calculates salary as an employee.

##### **4.1.1.2 Supplementary Sole Trader**

The social security transfer paid by a supplementary sole trader includes the following:

- Mandatory Pension insurance;
- Mandatory Health insurance;
- Contribution on Health protection at Work.

The basis for calculation of contribution amount is personal income obtain according to the Annual income tax returns.

#### **4.1.1.3. Company members who are managers without an employee status**

The social security costs of company members who are managers without an employee status (in Croatia or in country with which Croatia has Agreement on the avoidance of double taxation) are charged in the same way as sole trader.

In 2018, the basis for calculation of contribution amount is 8.020,00 HRK.

### **4.1.2 Labour Costs**

Employees in private sector are entitled to salaries. Payment of other allowance is employer's free will which is defined in Employment contract, regulation or act (transport cost, catering allowance, holiday allowance or annual award).

Salary is agreed in the context of a contract of employment. In some industries, there are collective agreements ensuring a minimum level of workers' rights.

The minimal salary is defined by law. For 2018, the minimum salary is 3.439,80 H.R.K. gross or 2.751,84 H.R.K. net.

Regardless of the amount of salary, social security contributions shall be accounted for, namely:

- social security contributions payable from gross wages in the total amount of 20.00% and
- employee's contributions payable on gross earnings in the total amount of 17.20%.

Example:

For an employee receiving a gross salary of 10 thousand H.R.K. the employer pays social security contributions, in addition, making the total amount of 11.720,00 H.R.K..

Catering allowance is taxable part of salary. Transport costs, certain allowances, rewards and personal income are non-taxable till certain amount defined by Income Tax Law.

## **4.2 Important / Exceptions**

### **4.2.1 Accounting**

The cost of accounting depends on the type of service, company size, number of employees, etc. There are plenty of providers available on the market, so it is important to opt for a service appropriate for the business. For a small company, the expected price for a reliable accounting service is at 1.100,00 H.R.K. per month.

*Incorrect accounting may lead to poor business results or, worse, acting not fully legally, which in turn can have a negative effect on one's credit rating at one's bank and cause difficulties, for example, when applying for a loan. Consequences can be high fine.*

With accounting, the price should not be the essential criterion of choice of an accountant.

#### 4.2.2 Costs of Premises

Before registering a company, its business address and head office in Croatia shall be decided. This can be done by renting an office or hiring a virtual one.

Business premises costs vary depending on the type, quality and location (for example for an office of 20 m<sup>2</sup> from 1.500,00 H.R.K. in the capital of Croatia – in March 2018).

Virtual offices costs range from 350 H.R.K. to 2 thousand H.R.K. per month (March 2018), depending on the provider, location and scope of services.

#### 4.2.3 Example of Business Operating Costs

In the presented Tables 1 and 2 are described approximate monthly costs without purchasing costs of products and services, needed for a Company without and with one employee.

*Table 1: Approximate monthly Company costs without purchasing costs of products and services, needed for business activity*

Cost type	Cost amount [HRK]
Accounting	1.100,00
Bank account	40,00
Office address	500,00
Additional costs (e.g. the Internet, office material....)	600,00
<b>Total</b>	<b>2.240,00</b>

For a company having employees, the fixed costs increase.

*Table 2: Approximate costs without purchasing costs of products and services, of a company with one employee*

Cost type	Cost amount [HRK]
Accounting	1.250,00
Bank account	70,00
Business premise (20 m <sup>2</sup> )	1.500,00

<b>Additional costs (e.g. the Internet, office material, electricity...)</b>	1.000,00
<b>Payroll costs for one employee</b>	4.465,00
<b>Total</b>	8.285,00

But beware!

It's just a case. You can only calculate operating costs more precisely after obtaining all relevant information from the investor (data on the number of employees, number of received and issued invoices per month and similar ...).

And of course, not all costs are involved in these calculations, as the tables does not include the cost of products and services needed for the company's products.

### 4.3 Professional Advice

In addition to a regular contract of employment, other forms of employment are possible, such as subcontracting, a copyright contract, a student service. Any entrepreneur should be aware of benefits, limitations and obligations specific for each particular form (more about different types of employment you can read in Module 5).

### 4.4 Additional information

More useful information can be found on the following suggested links:

Compulsory insurance contributions for 2018.

Croatian Chamber of Crafts “*New base for calculating contributions for compulsory insurance for 2018.*” (online). Available on: [http://www.obrtnicka-komora-koprivnica.hr/Dokumenti/Nove\\_osnovice\\_za\\_obracun\\_doprinos\\_a\\_za\\_obvezna\\_osiguranja\\_2018\\_9.1.2018.pdf](http://www.obrtnicka-komora-koprivnica.hr/Dokumenti/Nove_osnovice_za_obracun_doprinos_a_za_obvezna_osiguranja_2018_9.1.2018.pdf) (15.08.2018.)

More about compulsory social insurance of the members of the board

TEB. “*The Members of the board – Compulsory contributions*” (online). Available on: [https://www.teb.hr/novosti/2018/clanovi-uprave-obveza-doprinos\\_a/](https://www.teb.hr/novosti/2018/clanovi-uprave-obveza-doprinos_a/) (15.08.2018.)

Deductible receipts, fees and bonuses

Ministry of finance. Tax Department. “*Non-taxable receipts, receivables and grants*” (online). Available on: <http://ccenterclient.porezna-uprava.hr/view.asp?file=Neoporezivenaknadeptoporeidrugiprimici.XML> (15.08.2018.)

Tax administration opinion about non-taxable receivables

Ministry of finance. Tax Department. “*Personal Income Tax – receivables which are not considered income*” (online). Available on: [https://www.porezna-uprava.hr/HR\\_publicacije/Lists/mislenje33/Display.aspx?id=19191](https://www.porezna-uprava.hr/HR_publicacije/Lists/mislenje33/Display.aspx?id=19191) (27.09.2018.)

Payroll of the employee

Payroll. info “*Salary calculator for 2018.year*” (online). Available on:  
<https://www.isplate.info/kalkulator-place-2018.aspx> (27.09.2018.)

## 4.5 Quiz and exercise

### **Quiz:**

1. How often must a sole trader pay a social security contribution?
  - a) Weekly
  - b) Monthly
  - c) Yearly
  - d) Quarterly
  
2. What is the amount of the basis for calculation of contribution for company members who are managers without an employee status?
  - a) 3.250,00 HRK
  - b) 8.020,00 HRK
  - c) 5.133,00 HRK
  - d) 8.320,00 HRK
  
3. What costs are included in the full-time employee's salary?
  - a) Net salary, social contributions on net salary and transport
  - b) Net salary and social contributions on gross salary
  - c) Gross salary and social contributions on gross salary
  - d) Gross salary, social contributions on gross salary and transport

### **Exercise:**

Make a calculation for running a business in 40m<sup>2</sup> big rented Office with 2 employees.

Write your answer: \_\_\_\_\_

**Correct answer:**

**Please, rate your answer:**

- a) Correct
- b) Partially correct / Incomplete
- c) Incorrect



## **5 Industry-Specific Legislation**

### **5.1 Theoretical Framework**

For certain industries, business is regulated in a particular way. In some sectors, special regulations governing business operations apply.

These sectors include e.g.

- Real estate
- Health
- Trade
- Catering
- Construction
- Insurance
- Agriculture, Forestry
- Business activities which are dangerous to employees or the environment.

Make sure you check these regulations for each client. Information on the regulations and legislation in specific businesses is published at following web pages PSC.hr, Propisi.hr and in the Official Gazette.

### **5.2 Important/Exceptions**

Restrictions or special requirements are diverse. Some of them require their employees to hold a license (real estate agencies, for example), others concern to performing the activity or special equipment.

Therefore, an entrepreneur shall clarify whether his/her activity is one of those subject to specific legislation and regulations requiring special consents or not.

Those companies trading beyond the EU borders shall be acquainted with the customs regulations defined by the European Community Customs Code, Law on excise duty, The Foreign Exchange Act and the Enforcement of the custom rules of European Union. In those cases, it is advisable to contact Business entity which performs activities regarding freight forward and/or Croatian National Bank – Foreign Exchange Department.

The companies offering their services or products to state authorities shall be acquainted with the Public Procurement Act.

### **5.3 Tips from professionals**

You should check each client's foreseen business activities and make sure the client fulfils all the required industry – specific requirements before filing in the registration forms.

## 5.4 Additional information

Please, check the list of recommended further reading about Industry-Specific Legislation:

Requirements for conducting business by type of activity

PSC. Unique contact point for services. “*Requirements for conducting business*” (online). Available on: <http://psc.hr/uvjeti-za-obavljanje-djelatnosti/> (18.08.2018.)

Croatian legal portal with valid revised text of Regulations, daily updated

Official webpage. Propisi.Hr, (online). Available on: <https://www.propisi.hr/> (27.09.2018.)

Laws, Regulations, Decisions.....

Official Gazette. “*Official Journal of the Republic of Croatia*”(online). Available on: <https://narodne-novine.nn.hr/> (28.09.2018.)

Conditions which must be fulfilled when establishing and performing travel agencies’ business activities

Croatian Chamber of Crafts. “*Conditions which must be fulfilled when establishing and performing travel agencies’ business activities*” (online). Available on: [http://infos.hok.hr/faq/f\\_tehnicka\\_pitanja/f2\\_organizacija\\_rada/uvjeti\\_za\\_osnivanje\\_i\\_obavljanje\\_djelatnosti\\_putnickih\\_agencija](http://infos.hok.hr/faq/f_tehnicka_pitanja/f2_organizacija_rada/uvjeti_za_osnivanje_i_obavljanje_djelatnosti_putnickih_agencija) (28.09.2018.)

Union Customs Code

Zakon.hr. “*Directive (EU) br. 952/2013 EUROPEAN PARLIAMENT AND THE COUNCIL from 9. October 2013. about Union Customs Code*” (online). Available on: <https://www.zakon.hr/z/862/Carinski-zakonik-EU> (27.09.2018.)

Law on excise duty

Zakon.hr. “*Law on excise duty*” (online). Available on: <https://www.zakon.hr/z/545/Zakon-o-tro%C5%A1arinama> (27.09.2018.)

The Foreign Exchange Act

Zakon.hr. “*The Foreign Exchange Act*” (online). Available on: <https://www.zakon.hr/z/77/Zakon-o-deviznom-poslovanju> (27.09.2018.)

The Enforcement of the custom rules of European Union”

Zakon.hr “*Act on Enforcement of the custom rules of European Union*” (online). Available on: <https://www.zakon.hr/z/582/Zakon-o-provedbi-carinskih-propisa-Europske-unije> (27.09.2018.)

The Law on local taxes

Zakon.hr. “*The law on local taxes*” (online). Available on: <https://www.zakon.hr/z/875/Zakon-o-lokalnim-porezima> (27.09.2018.)

## 5.5 Quiz and exercise

### Quiz:

1. When should FDI advisor check if foreign investor needs to meet any specific requirements for selected business activity?
  - a) Before business registration
  - b) Within 3 months from the registration date
  - c) Never
  - d) Within 12 months from the registration date

### Exercise:

Find out which conditions must be fulfilled by foreign investor if he/she wants to start travel agency for organizing travel arrangements.

Write your answer:

Specify list of persons (service provider) who should be engaged and which one must be employed. Write down where did you find required conditions when establishing and performing travel agencies' business activities:

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**Correct answer:**

**Please, rate your answer:**

- a) Correct
- b) Partially correct / Incomplete
- c) Incorrect

## 6 OTHER USEFUL INFORMATION

### 6.1 Banks

All non-residents can open a bank account in most Croatian banks. To open an account, the customer needs the following documents:

- a valid personal identification document,
- Tax number obtained in the Republic of Croatia,
- Tax number from the country where the person is a resident.

The procedure lasts up to one hour, the costs of opening a non-resident's business account depends on the selected bank.

For small businesses and individuals, a deposit of 100 thousand E.U.R. is guaranteed, as defined by Directive 2009/14 / EC of the European Parliament.

Take a look at the list of the banks in Croatia:

<p><u>Banks in Croatia:</u> Addiko bank d.d., Banka Kovanica d.d., Croatia banka d.d., Erste &amp; Steiermärkische bank d.d., Hrvatska poštanska banka d.d., Imex banka d.d., Istarska kreditna banka Umag d.d., Jadranska banka d.d., J&amp;T banka d.d., Karlovačka banka d.d., Kentbanka d.d., Kreditna banka Zagreb d.d., OTP banka Hrvatska d.d., Partner banka d.d., Podravska banka d.d., Primorska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d., Samoborska banka d.d., Sberbank d.d., Slatinska banka d.d., Societe Generale-Splitska banka d.d., Štedbanka d.d., Veneto banka d.d. i Zagrebačka banka d.d.</p>
<p><u>The largest bank</u> in Croatia is Zagrebačka banka d.d. <u>The second one</u> is Privredna banka Zagreb d.d.</p>
<p><u>Saving bank</u> in Croatia: Tesla štedna banka d.d.</p>
<p><u>Branch of foreign (Euro system) banking institution</u> in Croatia: BKS Bank AG.</p>

## 6.2. Payment methods

There are several payment channels available in Croatia. It is possible to pay in cash, with cards, vouchers, and in some cases payment with virtual currencies is also enabled. Purchases can be paid personally on the spot, via the Internet, by post, by phone, by transaction accounts...

For businesses, restrictions apply to cash payments, so the preferred method of paying and charging is cashless. Since cash operations of companies are also subject to more rigorous tax supervision, more caution is needed. The penalties are quite high, so it is important to present this limitation to the foreign investors (please see sections 6.3., 6.4. and 6.5).

## 6.3. Issuing invoices paid in cash

If a company receives cash as a means of payment, it should have a tax cash-register and certified bound book of invoices used in the case of technical problem. Regarding tax cash-

register and certified bound book of invoices foreign investor should consult with the selected accountancy firm.

#### **6.4. Restrictions of cash payment**

Business entities have a limit when paying in cash. This means that only invoices up to 5.000,00 H.R.K. can be paid in cash. Above this amount the invoices must be paid by transfer to the transaction account. In case of payment of an invoice over the amount of 5.000,00 H.R.K. with cash, an enterprise which pays the invoice is an offence (not the one who issues the invoice and receives the cash).

#### **6.5. Prohibition on cash flow when doing business with natural persons**

Legal and natural person must not pay in cash goods or services to another natural person (entrepreneur). Only citizens can pay in cash.

#### **6.6. Quiz**

##### **Questions:**

1. Which documentation does a non-resident need to open an account in the bank of Croatia?
  - a) valid personal identification document, tax number obtained in the Republic of Croatia, registration number from the country where the person is resident
  - b) valid personal identification document, registration number obtained in the Republic of Croatia, registration number from the country where the person is resident
  - c) an employment contract, a registration number obtained in the Republic of Croatia, a registration number from the country where the person is resident
  - d) valid personal identification document, a tax number obtained in the Republic of Croatia, a tax number from the country where the person is a resident.
  
2. What must a business entity have if it receives cash payments?
  - a) Tax cash-register and list of issued invoices
  - b) Tax cash-register and certified bound book of invoices
  - c) A block of invoices or list of issued invoices
  - d) Portable classical cash-register
  
3. Is the amount allowed cash payments between business entities limited?
  - a) No
  - b) Yes, the amount of the paid invoice may not exceed 5.000,00 HRK
  - c) Yes, the amount of the paid invoice may not exceed 500,00 HRK

d) Yes, the amount of the paid invoice may not exceed 4.000,00 HRK

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## Module 3 – Accounting

### ACCOUNTING RECORDING OF ALL ECONOMIC CATEGORIES

#### 1.1 Overview / theoretical framework

As we observed in the previous unit, economic categories in accounting are based on several basic concepts related to business activities of a company. Business activities are the main activities of the company that primarily generate revenues, the activities related to the production and sale of goods and services, with the exception of investment and financial activities. In this section, the issues of accounting recording of economic categories, which primarily refer to assets, liabilities and equity that are included in the income statement as one of the fundamental financial statements are going to be explained.

After reading this unit, you will be able to:

- issues of accounting recording of economic categories
- learn more about long-term assets, short-term assets, liabilities and equity

##### 1.1.1 Introduction

In the accounting sense, the most important economic categories are the integral part of each accounting recording. Whether it is accounting for entrepreneurs, non-profit organizations, budget and budget-users accounting, tradesmen and freelancers, economic categories such as assets (long-term and short-term assets), liabilities and capital are applicable in all accounting concepts. For entrepreneurs, it is especially important to observe double-sided economic categories (assets, liabilities, capital, income, expenses and operating results) that make up the basic feature of dual bookkeeping.

#### I. Assets

To carry out its activities, an enterprise needs assets, which represent the resource that the company uses to carry out its business. According to its function and lifespan, assets are divided into:

- a) long-term (permanent) assets
- b) short-term assets

Assets can be tangible and intangible and money. According to its function and lifespan, assets are divided into:

- a) long-term (permanent) assets
- b) intangible assets and money.

#### I. Long-term assets

Long-term assets consist of:

- Intangible assets (research and development expenditures, formation expenses, concessions, patents and licenses, trademarks, investments in other assets, goodwill, advances on intangible assets, etc.)

- Tangible assets (land, forests, building facilities, plant and equipment, tangible assets in course of construction, etc.)
- Financial assets (shares in affiliated companies, investments in long-term securities, current deposits, down payments, long-term loans etc.)
- Long-term receivables (from affiliated companies, from sale on long-term credit etc.)

– **Long-term tangible assets**

Plant and equipment are long-term assets acquired for use in business operations and are not intended to be further sold to customers. For example, land, buildings, machinery, furniture and inventory, office equipment and vehicles. A freight vehicle in the car salon is part of the inventory. When the same vehicle is sold to a furniture shop, in order to be used to deliver goods to customers, it becomes a unit of plant and equipment.

Tangible assets are tangible physical assets, such as land, buildings or machines. This group can be divided into two different subgroups:

- a) property subject to depreciation - includes tangible fixed assets of a limited useful life such as buildings and office equipment
- b) land - the only tangible property that is not a subject to depreciation is land as it has an unlimited useful life.

– **Determination of procurement costs of plant and equipment**

The costs of plant and equipment purchases include all legitimate and necessary expenditures for the acquisition of assets and their putting into operation. As the benefits of the machine ownership will flow into the company, for example for 10 years, all secondary costs incurred during the procurement and putting the machine into use will be included in the value of the machine. This is based on the accounting principle of aligning the income and expense. Since the machine will produce revenue for the next 10 years, the expenses must be allocated for the same period. For example, it may be expenses for transportation, transit insurance, installation, trial operation and other costs that are necessary for the asset to be ready for use.

– **Capital expenditures and period costs**

Expenditures for acquisitions or for the extensions of tangible assets are called capital expenditures and are recorded in assets accounts. Ordinary repairs, maintenance, fuel, and other items required for the use of plant and equipment are called period costs and are recorded in expense accounts. The reason for charging the expense account is based on the assumption that the benefits of the expenses will be fully realized in the current period so that when determining the net profit, the expenditure should be deducted from the period revenue.

– **Long-term intangible assets**

Intangible assets are those assets that have no physical characteristics and are not tangible, and the enterprise will achieve the economic effects of its use over a period of one year. However, these assets may also be contained in a physical form, in the form of a contract and the like.

According to the Accounting Act, the position of intangible assets comprises:

- Research and development expenditure
- Patents, licenses, concessions, trademarks and other similar rights
- Goodwill and advances on intangible assets.

The basis for the recognition of intangible assets is found in IAS 38, on the basis of which a company should recognize the intangible asset at purchase cost only if it is probable that future economic benefits attributable to the asset will flow into the company and if the cost of the purchase of the asset can be determined reliably (<http://www.osfi.hr/>). The intangible asset should be systematically amortized with the best estimate of its useful life. R & D expenditures represent expenditure incurred for the research and development of new products and technologies whose results are expected to be used over a period of more than a year. These include investing in research and studies for acquiring innovation at the founding, expert services, appraisers, a meeting room for the founding assembly, and the like. Investments in patents, licenses, concessions, trademarks, franchises, investment in leased assets, and similar rights are a form of intangible assets that the company uses to earn its income over a period of more than a year.

A patent is a right which protects the patent owner (inventor) in the economic exploitation of the invention. The patent can be recorded on the balance sheet under intangible assets only if it is acquired from others. Patents are recorded at the cost of the purchase plus all expenses directly attributable to its preparation for the intended use.

A license is the purchase of a right, i.e. a permission to exploit someone's patented inventions, protected industrial traditions and the like, protected intangible assets. This purchase indicates the time right to use it or the right to produce a certain amount of a product. The license agreement is legally regulated by the Civil Obligations Act.

A franchise is a right acquired when one company pays the other one a fee for a particular business. It usually includes a right to sell certain products or provide a franchise service by using a trademark or service mark, organization and the technology of sales or delivering the service. Well-known examples of a franchise are Taxi Cameo, Forenti and others in the fast-food industry, fashion brands. Usually, the fee is paid in advance for multiple periods or more financial years, and therefore the franchise is characterized as long-term intangible assets.

A concession is a contractually defined permission whereby one party gives another party goods or rights to the economic use and the other party pays a fee for using the rights. The condition for the acquired concession to be considered a long-term asset is that the fee has been agreed for several years and that it has been paid in advance. If the concession is paid in the period on the basis of a comparative achieving of economic benefits, then it is the expense of the period. The examples of concessions are concessions of local self-government units and cities, state concessions.

Investments in rights also include bought intellectual property rights (copyright and publishing rights), customer lists, trademark, know-how, market shares etc. The purchase cost also includes a paid tax that cannot be deducted.

Investing in borrowed assets in order to bring the rented facility into a condition adequate for carrying out the activity. Investments can also be made on the basis of a lease agreement of a real estate or movable property. When contracting a business premise lease it is often necessary to make an investment in the subject of the lease so that the leased premise is brought into a condition suitable for use. Often this investment can be done by the lessor, and then the lessee does not recognize such investment on his balance sheet.

A goodwill signifies a higher value of a company that it has thanks to its reputation and similar factors that cannot be measured or it can be difficult to measure them and which result in a higher value of the enterprise. This value is reflected in the positive difference between the values of the enterprise as a whole in comparison to the sum of the value of its individual parts. On the balance sheet, a goodwill is recognized only if it has arisen in the process of acquiring and merging of another company. In accordance with IAS 38, an internally generated goodwill does not meet the recognition criteria as an asset and cannot be recognized as intangible assets on the balance sheet of the company, since it is not a resource that can be identified and controlled by a company and the cost of its acquisition cannot be determined reliably (IAS 38, group of authors, 2016).

Advances on intangible investments are amounts of advances paid to the supplier on the basis of a contract.

– **Long-term financial assets**

Long-term financial assets are investments for the purpose of achieving future economic benefits in the form of interest, gains or certain indirect benefits. Investment returns are expected within a period of more than one year. Long-term financial assets consist of:

- investments in long-term securities (shares, bonds, treasury bills etc.)
- long-term deposits and down payments
- shares in affiliated companies
- share in the capital of another company, etc.
- given long-term loans

– **Long-term receivables**

Receivables are property-related relationships created on the basis of a credible document between the creditor and the debtor and thus the receivables for the creditor mean a right to charge, and for the debtor an obligation to pay or return the received goods, etc. 13. (group of authors, 2004).

## **II. Short-term assets**

Current assets are types of assets that are expected to be converted into money in a very short time or in a business cycle, most often within a year, therefore those are relatively liquid assets. Current assets include money, investing in marketable securities and inventories. Inventories and receivables from customers are classified as current assets, even when the conversion of those assets into money will not be completed within one year, but for the classification of such assets as current, a business cycle that may be longer than a year is used. Current assets appear in the form of things, rights and money - all three basic forms.

The balance sheet of current assets includes:

- inventories
- short-term receivables (from customers, affiliated companies, employees, government)
- short-term financial assets (received short-term securities - checks, bills of exchange etc., short-term loans, deposits and down payments, shares in affiliated companies, etc.)
- money and money equivalents (cash, foreign exchange funds - foreign currency etc.)
- prepayments and deferred expenses (prepaid expenses and accrued income).

– **Short-term receivables**

Short-term receivables are those receivables that are expected to be realized within a short period of time, up to one year. The most common short-term receivables are receivables from

customers, government receivables and the like. They are particularly interesting in case of problems with the entrepreneur's obligations settling since this is a balance sheet item for which money inflow is expected.

#### – Money

Money, as the most liquid asset is part of the company's short-term assets, and is recorded in bank accounts - "giro-accounts" - open letters of credit with the domestic bank, cash registers, foreign currency accounts, open foreign currency letters of credit and foreign exchange cash registers.



#### – Short-term financial assets

Short-term financial assets are cash placements for a period shorter than one year. The recognition and measurement of short-term financial assets are regulated by HSFI 9 (Financial Assets) and IAS 39 - Recognition and Measurement Financial Instruments. Short-term financial assets include: short-term loans given to other entrepreneurs, purchased securities, given deposits, and other short-term debt securities and the like.

### III. Liabilities

Liabilities are company's debts. In order to be successful, the company must borrow money to replace the funds invested by the owner thereby allowing further development of the enterprise. The borrowed money is used to purchase new and more efficient machines which results in more efficient production at lower costs. The one who lent the money to the company becomes a creditor while the company is obliged to repay the money. Liabilities towards creditors take precedence over the requirements of the owner.

The total assets available to the entrepreneur may originate from two sources:

- a) from creditors - other sources of property, so-called "liabilities"
- b) from the enterprise owner - own sources of assets on the balance sheet are referred to as "capital" or "equity". On the balance sheet, obligations are part of the liabilities and represent "other sources" of the assets of the enterprise.

According to IAS, a liability is defined as "the current corporate liability deriving from past events, which is expected to result in the outflow of resources containing economic benefits (the Decision on the Publication of Croatian Financial Reporting Standards, HSFI 13 NN, Zagreb 30 / 08). Based on maturity, liabilities are divided into:

- a) short-term (current) liabilities - liabilities that are expected to be settled within one year, counting from the balance sheet date,
- b) long-term liabilities - liabilities with a repayment term of more than one year counting from the balance sheet date.

#### – Characteristics of liabilities

Liabilities are defined as debts or obligations that have arisen from transactions or events in the past and require settlement in the future. Therefore, the company is now making a commitment to give up the resources in the future.

– **Differences between debts and equity**

Enterprises can be financed from two sources, borrowed or their own. In case they are funded from the borrowed capital, then debts or obligations to return the funds are created. On the other hand, enterprises can be financed from their own resources, and that is called the equity. The main difference between them is that the receivables of the creditor mature, which means that they need to be paid on the date called the maturity date, and the equity is not due. Furthermore, liabilities have priority over the equity in the case of enterprise liquidation, however, the creditors do not thereby have the right to control the business of the enterprise. The liabilities for issued short-term securities (such as checks and bills of exchange) which have been given to the creditors in order to settle a particular obligation or the intention is, by issuing securities, to collect funds from their buyers (e.g. commercial bills). Accrued liabilities arise when expenditures for which payments will be made in subsequent periods are recognized.

Examples of accrued liabilities include liabilities for interests, tax liabilities and wage liabilities.

Advances received. When a ‘‘future’’ buyer grants funds to a giro account of an entrepreneur regarding a future delivery of goods or services, a liability for the recipient of an advance is created: to make a delivery or to return the money. After the delivery of goods or services has been made, the entrepreneur submits to the buyer a regular delivery invoice, rectifies the previously calculated VAT on the advance and for the accepted advance credits the buyer.

Long-term liabilities are liabilities with a maturity of more than one year. Such liabilities are usually the result of purchases of long-term assets, the purchase of another company or the refinancing of an existing long-term liability which is about to mature.

Unlike long-term, short-term liabilities are liabilities with a maturity of less than one year and they are a result of regular business transactions. Liabilities for loans, deposits, etc. which are received in the country and from abroad, from citizens or other companies. Liabilities to banks and other financial institutions - from banks, insurance companies, etc.

Long-term provisions for risks and charges are current liabilities for future expenses, they are a source of finance related to the revenue burden of the current result for expected future costs that will result from current sales and the income of the accounting period. If provisions would not be recorded, incomes of the future periods would be charged and the result of the current business would be presented unrealistically. Provisions are determined on the basis of estimates or on the experience in cost estimates (IAS 37, group of authors, 2016). A deferred payment of the costs and the income of the future period - these positions are also referred to as accruals and deferred income. For the purpose of a fair presentation of financial results, it is necessary to allocate more realistically the paid costs and revenues of the future period.

#### **IV. Capital**

Capital is the equity or own resources of a company's assets. The capital shows the value of the assets (money, things or rights) that the owners have invested in their company. In the case of a joint-stock company, the capital is expressed as "share capital", and when it comes



to a limited liability company (LLC) it is expressed as "subscribed capital". Own capital represents a permanent source of the company's assets. It is recorded on the liability balance sheet and constitutes a permanent source of own assets that are recorded on the balance sheet assets. The value of own capital is equal to the net book value of the company, namely:

$\text{NET BOOK VALUE} = \text{TOTAL ASSETS} - \text{LIABILITIES}$

$\text{CAPITAL} = \text{ASSETS} - \text{LIABILITIES}$

Capital is always in connection with the owners of a company, founders, investors, shareholders. Capital is a counterbalance to assets on the balance sheet. From the formula, we can see that the equity in the liability statement shows how much of net worth belongs to the owners of the company.

Regardless of whether it is a joint-stock company or a limited liability company, the capital includes:

- invested (paid) equity directly brought by the owners, and
- earned capital.

In literature, capital is often referred to as equity, net assets, own capital or capital and reserves. Capital consists of: a subscribed (founding) capital, share premium (capital gain) or a capital loss, revaluation reserves, statutory reserves, legal reserves, reserves for own shares, other reserves, a retained gain or capital gain and loss carry forward or a loss for the current year (Bešvir, B., 2006).

Capital can be invested in several forms:

- money, by paying into giro account of the company,
- things: by bringing the plant, equipment, inventories, etc. into the company,
- rights: by introducing a patent, license or other rights into the company.

Earned equity is the result of business activities of entrepreneurs. It represents a gain after taxation. We talk about the difference between profit and expense after the profit tax has been paid. If the earned profit of the current year after taxation is not paid to the owners but is retained in the company, then, on the basis of the decision of the company's management, it is transferred to the retained profit or is "redistributed" to retained profit and reserves.

#### – **Own capital structure**

Based on the balance sheet, the components of own capital are:

- subscribed capital
- premiums for the issued shares (capital gain)
- revaluation reserves,
- reserves (statutory, legal, other)
- retained earnings
- loss carried forward
- gain
- loss for the current year (after taxation)

The company's own capital can be increased in several ways:

- through new members that bring new founding capital into the company,
- by recapitalization or by increasing the share of founding capital by existing members of the company,
- with new share issue (JSC),

- by a capital gain (JSC).

A decrease in a capital occurs when:

- a loss for the current year has been realized,
- a gain for the current year or the retained earnings for the previous years has been paid to owners or when the dividends are paid to the shareholders,
- a share has been paid out from the founding capital to the investor who exits from the company,
- the diminished value of the previously revalued long-term assets has been compensated from the revaluation reserves.

## **V. Profit and loss account**

The profit and loss account is a report showing the business performance of a company, that is, it shows the total profit and loss of the business and their difference as a gain (in case of positive business operating or a loss in the case of a negative business operating). The basic structure and contents of the profit and loss account are defined by the Accounting Act and are composed of:

- I. Operating revenues
- II. Operating expenses
- III. Financial revenue
- IV. Financial expenses
- V. SHARE IN THE PROFITS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS
- VI. SHARE IN THE PROFITS FROM JOINT VENTURES
- VII. SHARE IN THE LOSS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS
- VIII. SHARE IN THE LOSS FROM JOINT VENTURES
- IX. TOTAL INCOME
- X. TOTAL EXPENDITURE
- XI. PROFIT OR LOSS BEFORE TAXATION
- XII. PROFIT TAX
- XIII. PROFIT OR LOSS FOR THE PERIOD

## **VI. Revenue recognition**

Revenues represent one of the most important elements of the financial statements on the basis of which the business performance, methods of revenue recognition and measurement in the financial statements are estimated, as defined by the Accounting Standards (Sever, 2013). As regulated by IAS 18-Revenue, the recognition of revenue is based on the basic accounting assumption of the occurrence of an event, on the basis of which revenues and expenses are recognized at the time they were incurred, and not at the time of the actual money receipt or expenditure. Revenue is earned when the main condition of the agreement between the two parties is fulfilled, i.e. revenue is recognized when it is probable that future economic benefits will flow into the enterprise and when those benefits can be measured reliably. Therefore, regarding the recognition of revenue, the principle of caution is very important requiring that the revenue is recognized only when it is certain while expenditures are recognized even when they are possible.

## VII. Expenditure recognition

As defined by IAS 1.t.7., expenditures are one of the five elements of the financial report and, together with the revenue, are directly related to the measuring of the financial performance. Expenditures can be recognized in the profit statement if the reduction of future economic benefits results in a decrease in assets or in the increase of liabilities that can be measured reliably. This means that the recognition of expenditures occurs at the same time as the recognition of the increase in liabilities or reduction of assets.

## VIII. Statement of comprehensive income

According to the International Financial Reporting Standards (IFRS), entrepreneurs, i.e. large enterprises as well as those entrepreneurs whose shares or debt securities are listed or are being prepared for their listing on an organized securities market are obliged to draw up a comprehensive income report (<http://national-novine.nn.hr>). The aforementioned report is, in fact, a supplement to the Income Statement and includes income and expense items that are not recognized as a gain or loss, but through the capital, i.e. comprehensive gains. The comprehensive income statement contains the following elements:

I	PROFIT OR LOSS FOR THE PERIOD
II	OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX
1.	Foreign exchange differences from foreign business operation recalculation
2.	Changes in revaluation reserves of long-term tangible and intangible assets
3.	Gain or loss on the basis of subsequent valuation of financial assets available for sale
4.	Gain or loss on the basis of effective cash flow hedge
5.	Gain or loss on the basis of effective hedging of net investment abroad
6.	Share in other comprehensive income/loss of companies linked by virtue of participating interests
7.	Actuarial gains/losses according to defined benefit plans
8.	Other non-proprietary changes in capital
III	TAX ON OTHER OVERALL COMPREHENSIVE PROFIT FOR THE PERIOD
IV	NET OTHER COMPREHENSIVE INCOME OR LOSS
V	COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD
	APPENDIX to the Report on Other Comprehensive Income (filled in by the entrepreneur who compiles the consolidated annual financial reports)
VI	COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD
1.	Attributed to equity holders of a parent company
2.	Attributed to a minority (non-controlling) interest

Table 1: Comprehensive income report

Source: [http://narodne-novine.nn.hr/clanci/sluzbeni/2015\\_09\\_96\\_1849.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2015_09_96_1849.html)

#### 5.1.4. a) CLASSIFICATION OF RECEIVABLES ACCORDING TO THEIR TYPE

Short-term receivables can be divided into: receivables from customers, employees' claims, government receivables (eg excess payment of VAT) and other short-term receivables.

The following is the example of recording claims from the state.

1) Goods worth 100,000 kn with VAT have been purchased from the supplier and the invoice has been issued

Obligation to suppliers

100.000,00 kn

Claim for input tax 25 % 18002

20.000,00 kn

Purchase price of goods from domestic suppliers 6500

80.000,00 kn

#### b) GOODS - RETAIL

Recording of business events related to retail merchandise in the main book includes:

1. Calculation and recording of goods in the main book accounts
2. Recognition of revenue from sales of goods and VAT recording
3. Deleveragement of a shop for sold goods and recording of the purchase costs of sold goods

It is necessary to recognize sales revenue (item 7603) at the selling price of goods and to recognize expenses (item 710) at the purchase price of the goods sold.

The calculation of the purchase value of the goods sold at the expense of the period (item 710) is done by calculating the VAT rate of the goods sold, for example, a 25% tax rate calculation is 20%.

After that, we need to calculate the amount of margins in the merchandise, using the formula for the average margin of the store that can be calculated in the following way:

Image 2: Average margin

$$\% \text{ store margin} = \frac{\text{Demand-side of account 6681}}{\text{Debit-side of account 663}} \times 100$$

6681- Store margin account  
663 – Goods account at the store

Source: Jurić Đ., Purchase and sale of goods in retail trade, Accounting, audit and finances, Zagreb, October 2012

**Example:**

In the example of recording, the measurement technique of merchandise inventory costs based on the retail trade method is applied according to IAS 2, t. 17. (if the results are approximately equal to the cost).

The inventory cost will be calculated by using a certain percentage of gross margin, so that the inventory sale value is reduced. The calculation is done by applying the average margin to the retail price of the goods sold.

1. Goods, according to the invoice, worth 80.000,00 kn were purchased from the supplier "ABC" d.o.o. (value of delivery 64.000,00 kn + 25% VAT 16.000 kn). Also, a delivery invoice has been received and amounts to 1.000,00 kn plus VAT. Calculation no. is issued and the store is charged the value. The margin is 100%.
2. Daily turnover of the "c" d.o.o. store amounts to 4.000,00 kn. VAT amounts to 4.000,00 x20% = 800 kn.
3. The goods sold are deleveraged in the accounting period. It is also necessary to calculate the average margin.

Purchase price of the goods from the supplier

1) 64.000,00 kn

Supplier's obligation for goods 2200

80.000,00 kn 1)

Claim for input tax 25 %18002

1) 16.000,00 kn

Obligation to supplier for delivery service 2200

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1.250,00 kn 1a)

Dependent Costs of Goods Purchase - transport 6510

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1a) 1.000,00 kn

Claim for input tax 25 % 18002

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1a) 250,00 kn

**Calculation:**

1.	Net-purchase price of goods (purchase price without VAT)	64.000,00 kn
2.	+ dependent costs of purchase (+customs duty + special taxes)	1.000,00 kn
<hr/>		
3.	= PURCHASE COST (Purchase price)	65.000,00 kn
4.	+ Store margin 100 % or (If selling price is defined PC –NC (5-3))	65.000,00 kn
<hr/>		
5.	= SELLING PRICE WITHOUT VAT	130.000,00 kn
6.	=AMOUNT OF 25% VAT	32.500,00 kn
<hr/>		
7.	= SELLING PRICE WITH VAT	162.500,00 kn

**Calculation recording in the main book:**

Goods in the store 25% 6630

---

1b) 162.500 kn

VAT calculated 25% 6640

---

1b) 32.500,00 kn

Difference in the price of goods with 25% VAT 6670

---

1b) 65.000,00 kn

Purchase price of goods from the supplier 6500

---

1b) 64.000,00 kn

Dependent costs of goods purchase - transport 6510

---

1.000 kn 1b)

Daily turnover of "c" d.o.o. store is 4.000,00 kn. The amount of VAT is  $4.000,00 \times 20\% = 800$  kn.

Store cash register 1022

---

2) 4.000,00 kn

Merchandise sales revenue - retail 7601

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	4.000,00 kn 2)
--	----------------

At the same time:

Merchandise sales revenue - retail 7601

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	-800,00 kn 2a)
--	----------------

VAT obligation 25% 28020

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	800,00 kn 2a)
--	---------------

The goods in the store are deleveraged in the accounting period. It is necessary to calculate the average margin.

$$\begin{aligned} \text{Average margin \%} &= \text{credit balance 6670} / \text{debit balance 66300} * 100 \\ &= 65.000,00 / 162.500,00 \\ &= 0,40 * 100 \\ &= 40 \end{aligned}$$

$$\begin{aligned} \text{The margin of the sold goods} &= \text{Store proceeds 4.000,00 kn} \times 40\% \\ &= 1.600,00 \text{ kn} \end{aligned}$$

After the calculations have been completed, a business event can be recorded as follows:

Goods in the store 25% 6630

---

	4000 kn 3)
--	------------

VAT calculated 25% 6640

---



3) 800 kn

Difference in the price of goods with 25% VAT 6670

---

1600 kn 3)

Costs of goods sold 7100

---

3) 1600 kn

### C) OBLIGATIONS

The obligation is the present obligation of the entrepreneur, resulting from past events for whose settlement the outflow of resources is expected, as defined by HSFI 13.

They are classified as short-term and long-term. In order for the obligation to be classified as short-term, it must meet the following criteria (HSFI 13, narodne-novine.nn.hr):

- it is expected to be settled in the regular business cycle,
- it is due to be settled within twelve months after the balance sheet date,
- it is primarily held for trading,
- the entrepreneur has no unconditional right to postpone the obligation settlement for at least twelve months after the balance sheet date.

When obligations do not meet the above criteria, we classify them as long-term obligations.



#### **The example of recording of long-term obligations:**

The entrepreneur "ABC" has received a loan from "XY" company in the amount of 250,000 KN, for a maturity of 5 years, the funds have been credited to the giro account.

Long-term obligations for loans

---

250.000,00 kn

Giro account transaction accounts in banks 1000

---

250.000,00 kn

---

#### **d) CAPITAL**

Capital (German *kapital*) (poslovni.hr):

1. In the business economy it is used to designate the size of the equity (capital owned by the company). According to the international accounting standards, equity is the capital of an enterprise which, regardless of the type of ownership, includes: the value of individual investors' investments, the value of issued shares and other unlisted property, such as disposable income above share premium, property value appreciation due to positive revaluation effects, reserves, undistributed profit.

There are three types of equity, ie own capital: owner's capital, partnership capital and share capital. Owner's capital is that owned by one person. The owner has unlimited liability for the debts of his company with his entire property (business and personal). Capital owned by partnership companies is partnership capital. Although this type of capital is identical in terms of characteristics, it is possible that some owners have limited liability in the amount of business assets (limited liability partnership). The third type of capital is share (corporate) capital. This capital is divided into shares and has a high degree of capital market mobility. The liability of its owners is limited to the amount of business property.

2. money that an individual or company invests in starting up or running a business venture. Capital means the total value of an enterprise's assets (financed from own and / or foreign sources). Capital can therefore be viewed as assets (assets) or ownership (liabilities), ie as their interdependence;

3. long-term corporate liabilities (equity and long-term debts);

4. in macroeconomics, assets capable of creating additional assets.

Capital is defined as one's own source of financing of assets and is calculated as the remaining assets of an enterprise after deduction of all its liabilities and it consists of (HSFI 12 <http://narodne-novine.nn.hr>):

- subscribed capital
- capital reserves
- revaluation reserves
- fair value reserves
- revenue reserves
- retained earnings or loss carryover, and profit or loss for the current year.

**An example of recording in the general ledger:**

The profit in the financial year has been determined by the profit and loss account in the amount of HRK 40,000 and has been recorded in the 9500 account - profit in the financial year- and according to the Shareholders' Meeting decision, the profit is distributed as follows:

- Member X 10.000 kn
- Member Y 15.000 kn
- Member Z 15.000 kn

9420 Financial year profit

---

*40.000,00 kn*

9401 retained earnings-analytics member X

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10.000,00 kn

9401 retained earnings-analytics member Y

---

15.000,00 kn

9401 retained earnings-analytics member Z

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15.000,00 kn

## Module 3 - Accounting

### Introduction

Since accounting is considered the basis of business decision-making, not only for investment advisors, but also for investors themselves, it is desirable to know the basic institutes within accounting that, sometimes, can be crucial for making a decision on investment. In practice and theory, we encounter multiple definitions of accounting, some of the definitions are as follows: Accounting is a set of theories, concepts and techniques by which financial data is processed into information for the purpose of reporting, planning, supervising and decision making: "(L. Solomon, R. Vargo, L. Walther, 1986). This definition reflects the achievements of theoretical knowledge and good accounting practice of today. The following definition expresses the focus of accounting on information: The accounting system can be defined as a set of tasks within entities that process certain transactions based on financial records. Such a system should be recognized, calculated, classified, published, summarized and reported on these transactions. "(International Auditing Standards, 1993). Both definitions have the following in common: the subject of data collection are business transactions, the proven data is entered in the financial records (business books), data entered into the business books is calculated and accordingly classified, based on the processed data the financial and accounting reports are compiled, the reports carry the intended information to the investors, members of the management board and others, managers, lenders, suppliers, customers, the government and its agencies and the public.

### Glossary

**Account** - a document issued by the seller to the buyer for the products sold or services rendered. The account proves the execution of a job.

**Accounting** - means a function in an organization or a company that records, analyzes, interprets business events and financial information products. Accounting can be divided into accounting, financial accounting and management accounting.

**Accounting Policies** - present rules and procedures adopted by an entrepreneur or management to prepare financial statements.

**Accounting Principles** - marks the initial principles that show business events as defined by accounting theory.

**Annual report** - is a report which the owners present to the management of the bank or the company. This report describes the business in the past year and provides plans for further development. The annual report is presented and accepted at the annual assembly of the founders.

**Balance sheet** is one of the fundamental financial statements showing the volume and structure of the assets, equity and liabilities of the enterprise on a specific day (regularly at the end of the accounting period).

**Cash flow** - denotes the cash flow in the business of the company.

**Cash register** - indicates a place in a company where cash and securities transactions are performed.

**Claim** - means the relationship between buyers and sellers in which the seller is seeking debt settlement for the goods or services sold.

**Costs** - are the estimated consumption of production factors necessary for the production and sale of business performance and for the preservation of enterprises. We distinguish them according to different criteria.

**Currency** - is paper and coins issued by a state or a bank, in circulation serves as a means of exchange and a legal means of payment. Each country usually has its own currency. Payments between countries are made in currencies at a particular exchange rate. Currency exchange rates depend on the demand and offer of the respective currencies.

**Custom tax** is a tax on imports, and less on exports of goods; the amount of money that the state charges from the owner of the goods when it crosses the border. They are usually ad valorem, ie in percentage of the value of the goods, but they may also be specific (in a given amount per unit of weight or volume) and combined.

**Customer** - an entity that buys goods or services from third parties.

**Debt** - means the amount of money that the debtor has to settle.

**Depreciation** is a way of calculating (engl. depreciation, capital recovery, njem. Abschreibung, Wertminderung, fr. Amortissement). Depreciation is a gradual decrease in the value of an enterprise's assets, and is calculated annually under the law according to procedures.

**Dividend** - a portion of the company's profits paid to shareholders. The amount of dividends is determined by the shareholders' meeting. Usually, the dividend level is determined in percentage of the share value.

**Economic flow** - display all receipts, expenditures and their differences; makes the basis for calculating profitability and application of dynamic methods of evaluation of the investment project. This is the broader concept of cash flow. Receipts in the economic flow are not only revenue from the sale of effects but also the rest of the value of the project. Expenditures in the economic course are: investments and other expenditures related to investments, operating expenses without depreciation, special issues for the social standard, taxes on profit and allocation for reserves. Net income in the economic flow is defined as the difference between income and expenditures.

**Expenditure** - is contrary to income, denotes money and commodity payments for liabilities incurred. These are all types of costs caused by the business of legal and physical entities. The term expense appears primarily in bookkeeping as a component of the opposing income within the balance sheet of success. Given the purpose, expenditures are divided into business, finance and other expenditures. Business or regular expenses include costs arising from the acquisition of regular income, or caused by the basic activity of entities (for

example, material costs and depreciation, non-material costs, etc.). Alongside regular expenditures, other expenditures are also frequent. One of its properties is that it inevitably doesn't generate income.

**Goods** - a product of human labor intended for sale.

**Gross Balance** - means recapitulative cumulative overview of the main book account turnover.

**Gross Profit** is derived in size that reflects the success of the business. It is obtained as the difference between all income (business, financial and other sources) and all expenditures (business, financial and other expenses) for a certain period of time.

**Income Statement** - shows revenue and expenses on a particular day.

**Income tax** - Income tax is paid on the tax base at rates of 24% and 36%. Craft income as determined by business books is the difference between operating income and operating expenses incurred during the same tax period.

**Liabilities** - includes the own capital of the insurer, technical reserves, other reserves that contain provisions for the pensions of the insurer's employees and similar long-term and short-term liabilities and accrual items.

**Long-term assets** - are all assets that permanently serve the business process in a company and are cashable over a period of one year. The purpose of this form of property is not resale.

**Long-term liabilities** - those liabilities of companies whose payment period is longer than one year. They are in the passive balance sheet.

**Loss** - represents the negative business result of a company realized in a certain period of the year. Company expenses are higher than revenues.

**Notes** of the underlying financial statements are to enhance the preparation and supplementation of the balance sheet, profit and loss account, cash flow statement and statement of changes in equity.

**Price** - is a monetary expression of the value of a commodity formed under the mutual influence of supply and demand of that commodity on the market. The basic factors affecting the price formation are related to the offer, supply, needs and purchasing power of the consumer. Generally, marketing is considered to be a means, instrument, not the ultimate goal.

**Principal** –

1. the net amount of property belonging to the trader by deducting debts;
2. in the narrower sense, the sum of money that was initially invested in the business, but also the amount available for subsequent operations;
3. It differs from core capital.

**Profit** - denotes the difference between invested assets and the cost of business activity.

**Profit tax** - denotes a tax on the work of legal entities. Income tax is generated as a difference in income and expense. In Croatia, the income tax is 12% and 18%.

**Profitability** - ratio of realized profit and invested funds.

**Pure cash flow** is the difference between cash receipts and cash outflows over a given period. The key category of financial access. Cash receipts are the money that a company receives from its environment and increase its cash flow. These include primarily the collection of customer receivables for realized products and services, as well as the receipt of interest payments, profits from other companies, claims for damages, etc.

**Retained earnings** - Retained earnings (engl. retained earnings, njem. einbehaltener, unverteilter, nicht ausgeschütteter, thesaurierter Gewinn) is a part of the company's equity principal, which was created by accumulating - retaining part of the realized profit from the previous accounting periods. It is in the balance sheet and shows the value of the equity of ordinary shareholders.

**Risk** - possibility of material and / or non-material loss. The concept of risk in a broader sense also means the notion of danger. In insurance, the concept of risk implies a secured risk of certain possible hazards, e.g. fire, accidents, etc.

**Salary** - is a fee for work done. It is paid to employees on the basis of an employment contract signed by the director on behalf of the company with an employee. Salary is paid monthly as an advance of annual remuneration for work. At the end of the business year, a final salary calculation for each employee is done.

**Sales** - represents a change in the ownership of goods between the seller and the buyer.

**Statement of Income Balance** - Profit and Loss Account.

**Supplier** - is a business partner that supplies goods or services to a company.

**Tax** - means a portion of the revenue that the state takes to legal and natural persons to cover their expenditures, and in return, in return, does not make any compensation. These are not only the sources of financing of expenditures caused by the functioning of the state and administrative apparatus, but also the instruments of economic and social policy. Benefits of taxpayers from paid taxes are mostly direct (for example, roads, health facilities, schools, kindergartens, etc.). With regard to the subject of taxation, the tax differs from turnover, income, profit, total income of citizens.

**Tax on real estate transactions** - means the type of tax on old real estate which in Croatia is 4%.

**Tax Rebate** - any reduction that impairs the tax base of the tax base. They are determined before determining the tax liability of the taxpayer. Types and forms of tax relief, as well as the manner of their application, are prescribed by the legislator.

**Total Cash Flow** - is the origin of money by separately observing cash flows from operating activities (operating cash flow), cash flow from investment or investment activities, and cash flows from financial activities.

**Total revenue** - represents all income of the enterprise.

**Value added tax** is a form of sales tax, the realization of which is divided into partial payments made on the basis of value added at each stage of the production and distribution process. VAT is calculated and paid successively, at each sale, but only to the net value realized at each stage. Exports are made without this tax, and imports are burdened with the same rates as the national product. It can therefore be unique, but also differentiated into different types of goods or services.



## 1. Calculating and reporting different taxes

### 1.1. Overview / theoretical framework

In this section, the participants acquaint themselves with the theoretical framework of the tax system in the Republic of Croatia, and the way of calculating and reporting different taxes.

After reading this unit, you will be able to:

- become familiar with the concepts of Profit Tax, Income Tax and Value Added Tax.
- get to know the foundation institutes of the taxation system of the Republic of Croatia.

#### 1.1.1. Introduction

Accounting tracks the business process and takes place in compliance with accounting standards by applying the legal regulations of a particular country. Below you will find more details on the issues of certain tax regulations in the Republic of Croatia and their application in the system of accounting of entrepreneurs, through the following parts:

- the fundamental features of the Croatian tax system
- profit tax
- income tax
- transfer of taxpayers to income tax inside the profit tax system



- value added tax

### **1.1.2. The fundamental features of the tax system of the Republic of Croatia**

The Croatian tax system is based on a system of direct and indirect taxation. Direct taxes are the income of the state that an individual pays personally or for which the employer has paid. Taxes are calculated as a certain percentage of the realized income or assets, and in Croatia there are profit tax, income tax and surtax on income tax. Indirect taxes are those taxes where the tax burden of taxpayers through the price of a product or service is borne by the end user, and in Croatia there is value added tax, excise and real estate tax.

Taxes represent the revenue of the budget and are settled for the purpose of settling the public expenditure envisaged by the budget. Pursuant to the Constitution of the Republic of Croatia, it is the obligation of each individual to participate in settling public expenditure in accordance with their own economic capacity. The general tax law categorizes public duties on taxes and other public revenues that include duties (the form of tax charged on the import of goods or services), fees (money for the use of a certain public good or payment of a particular act), contributions (giving for the purpose of using certain services for the exercise of certain rights), concession fees, fines for tax misdemeanors, and all allowances, the determination, collection and / or supervision of which fall under special regulations, and within the remit of the tax authority.

### **1.1.3. Profit tax**

The Profit Tax Act and the Profit Tax Ordinance are the underlying regulations governing the issue of profit tax. From the balance sheet perspective, profits represent the difference between equity before taxation at the end and at the beginning of the period. Likewise, profit can also be defined from the perspective of profit and loss of an account, as the positive difference between realized income and expenses in the accounting period.

Profit tax is a tax on a base that is the difference between income and expenses. In English, terminology is called corporate / corporation income tax. The difference in income and expenses or gain realized in the accounting period is the basis of profit tax. The taxpayer is: a taxpaying company or other legal and natural person residing in the Republic of Croatia who carries out the economic activity on an autonomous and permanent basis and for the purpose of obtaining profit, income or revenue or other economic-assessable benefits. (Profit Tax, ([https://www.porezna uprava.hr/hr\\_propisi](https://www.porezna uprava.hr/hr_propisi)))

Profit tax is payable:

1. 12% if income tax amounted to 3,000,000.00 HRK in the tax period, or
2. 18% if income realized in the tax period is equal to or greater than 3,000,000.01 HRK.

From the tax perspective, profit before tax (or gross profit) is the tax base increased for previously non-deductible expenses and reduced for deductions and relief, in accordance with the provisions of the Profit Tax Act. Thus, between the accounting results of the financial results from the point of view of tax regulations, which is the tax base, there are some differences that are reflected in revenues and expenditures, and may have the characteristics

of permanent and temporary differences. An entrepreneur who is in the system of profit tax is obliged to manage his business books and to compile reports in accordance with the regulations on accounting of entrepreneurs, which implies the application of the principle of dual bookkeeping. The tax period is usually a calendar year, although at the request of a taxpayer another tax period of up to 12 months can be determined. Income tax is determined at the rate of 18% on the tax base, which is the accounting profit determined on the basis of data from the business books of the trading company and the financial statements prepared in accordance with the accounting regulations, corrected for the prescribed deductions and increases.

Permanent differences in expenditures arise from accounting expense that is permanently tax-deductible and thus increases the accounting profit or tax base. Permanent differences from the point of view of revenue are most often the result of incorporating into income amounts already taxed, such as dividends and profit share. A taxpayer is obliged to provide all necessary information on income and expenditure with permanent differences in accounting. Temporary differences, on the other hand, arise in one or more periods and are abolished in one or more periods. In this case, the tax effects of temporary differences are recognized as an item of property - deferred tax assets, or as a liability item - deferred tax liabilities.

Pursuant to the provisions of the Law, the taxpayer is a company or other legal and natural person who carries out the economic activity independently and permanently for the purpose of gaining benefits, and is a resident of Croatia, as well as a domestic business unit of a foreign enterprise.

#### **1.1.4. Income tax**

A taxpayer is a trade that earns income from self-employment. If more than one physical person jointly generates income, the taxpayer calculates separately for each person's share of the common income. Income from business, as determined by business books, is the difference between business receipts and business expenses arising in the same tax period. Receipts and expenditures are determined according to their market value, according to the principle of cash receipts - receipts are determined after payments received and after expenditure payments have been made. The trade shall submit the application to the taxpayer's register at the competent tax authority at the place of his / her residence or habitual residence within 8 days from the beginning and the end of the activity.

The Monthly Income Tax Advance is determined by the Tax Administration by a decision. A craftsman who starts working independently does not pay advances of income tax until the first annual tax return has been filed. The taxable income tax base makes income from trades reduced by the transferred loss and personal deduction. Income tax is paid on the tax base at rates of 24% and 36%.

The craftsman can use various incentives and deductions - employment incentives, state support for education and training, research and development incentives and tax incentives for performing activities in assisted areas and the area of the City of Vukovar.

#### **1.1.5. Flat-rate taxation of trades**

A taxpayer is a trade which earns income from the self-employed activity of the trade, in accordance with the craftsmanship regulations, and which meets all of these conditions:

1. The total income in the previous year is not higher than HRK 300,000.00, with the mentioned limit of HRK 300,000.00 related to the amount of receipts that the payer can earn in 2017.
2. If the trade's earnings are below HRK 300,000.00, they are excluded from VAT.

A trade that begins to carry out a self-employed activity can choose how the income tax will be paid, and is obliged to report at the beginning of the activity to the competent tax administration office according to his residence or habitual residence within 8 days from the beginning of self-employment. A trade that carries out self-employment and income is determined on the basis of business books, and opts to pay the flat-rate for tax, is obliged to submit a report to the authorized tax office of the Tax Administration by the end of the current year for the following year and not later than 15 days after the expiration of the current calendar year.

The annual flat-rate income is determined by a decision of the competent tax administration office according to the place of residence or habitual residence of the taxpayer, and is in effect until a new decision is made. By applying a tax rate of 12% to the annual income, which is also the annual tax base for determining the annual flat-rate, the annual flat-rate income tax is determined. The monthly flat-rate income tax is determined by dividing the flat-rate sum of the income tax into twelve months, or a number comparable with the months of the taxation period in which the taxpayer carries out an independent activity.

#### **1.1.6. Value Added Tax**

Value Added Tax is a modern form of taxation which has been in effect in Croatia since 1 January 1998 and regulated by the Value Added Tax Act and the Regulations on the Value Added Tax Act. By virtue of its economic impact, the value added tax is a tax on general consumption and is included in the turnover tax group. Value added tax represents a surplus sales tax that is calculated at each stage of the production and sales cycle, only to the added value created at a particular stage. The added value is actually the difference between the value of selling of the produced goods and services, and the value of purchasing goods and services. Thus, value added is the value that the manufacturer adds to the inputs purchased to sell them later.

Value added tax is therefore taxed by the difference between the selling price and the purchasing value of the goods. For taxpayers who are in the VAT system, this tax is neutral, since the tax paid for the purchase is recognized as a deduction of the tax liability, while on the other hand, the difference in VAT is borne by the buyer, whereby the final buyer submits the entire tax burden.

Pretax represents the amount of tax that is in the supplier's account and is paid to the supplier. However, this amount of tax also represents a tax liability towards the country of the supplier, while for the recipient of the invoice (customer in the VAT system), although increasing its debt to the supplier and represents a financial expense, it is actually the amount shown as an advance paid to the state. This means that in the billing period, the tax deduction decreases the VAT liability on the invoices issued for the delivered goods or services. VAT on input accounts is not included in the purchase value of the goods because it does not represent the

cost of the purchase, but reduces the obligation for VAT in the accounting period, therefore this amount is allocated and specifically recorded as a tax on the entrepreneur in the VAT system. In this case, the final buyer pays the full sale price, including VAT.

The Taxpayer of VAT is:

1. Any person who independently carries out any economic activity, irrespective of the purpose and performance of that activity.
2. Any person who occasionally delivers a new means of transport (eg citizens and ministries).
3. In the territory of the Republic of Croatia, a taxpayer who does not have a head office, a business unit, a permanent residence or a habitual residence, and performs domestic deliveries of goods or services where place of taxation in the Republic of Croatia (unless the Croatian recipient of goods or services is paid by VAT). Taxpayers with head offices in the European Union may appoint a tax representative in the Republic of Croatia, while taxpayers with head offices outside the European Union must appoint a tax representative as a person who is required to pay VAT.
4. State authorities, state administration bodies, bodies and units of local and regional self-government, chambers and other bodies with public authority, if they carry out economic or other activities, as the non-taxation of these activities would lead to significant distortion of market competition.

For the information on the moment of VAT calculation, see Annex 1.1.6.a., please.

## **1.2. Important / exceptions**

For taxpayers to enter or exit the VAT system, as of January 1, 2018, a new threshold for the value of delivering goods and / or services performed in the previous year, ie in 2017, has been applied. Entering or exiting the VAT system depends on whether the amount earned is greater or lesser than 300.000,00 kn.

In accordance with Art. 90, paragraph 5 of the Law on Value Added Tax, to enter the VAT system and to determine imported goods, 5, 13 and 25% of the taxable turnover is deducted from VAT, whereas the value of deliveries are exempted from VAT. It is about exemptions for exports, the provision of services on movable property, in connection with international transport, for certain deliveries that are related with export - diplomatic and consular missions etc. for certain mediation services. Transactions included in Art. 40th pt 1, a) - g) of the Law on VAT and real estate transactions, unless these transactions are ancillary (occasional). Taxes on tangible and intangible assets of a taxpayer (taxpayer's long-term assets) are not taken into account.

The taxpayer (income and profit) should enter the VAT system "by force of law" if they made taxable deliveries of goods and services in excess of HRK 300.000,00 in the previous year, irrespective of whether it was so charged (if they are paying VAT per invoice), and regardless of whether they have been operating for a whole year or just for a few months. Furthermore, when exiting from the VAT system, taxpayers should take care of the tax consequences,

primarily the obligation to correct the purchase of purchased economic goods in the previous tax periods for which they used pre-taxation.

Please note that the threshold of HRK 300.000,00 applies to trade firms who do not need to start running business books if in the course of 2017 they exceed the delivery threshold - receipts over 300.000,00 kn, not of 230.000,00 kn.

Income calculations in a company are carried out in accounting, therefore it is necessary to know the characteristics of different categories of income, the methods of calculation and the obligations of the entrepreneur towards the recipient of income and the state. Depending on the city or municipality where the entrepreneur has his or her habitual residence, there are different prescribed rates, and it is therefore desirable to check which tax rate is applicable to each company.

### **1.3. Tips from professionals**

When talking about investments, it is essential to know the tax benefits related to the Profit Tax. Considering the number of tax reliefs, it is well known that the relevant provisions of the Income Tax Act are in place.

### **1.4. Additional reading (more information and useful links)**

- <https://www.rrif.hr/index.php>

On the proposed website, you can find basic information about the accounting system of the Republic of Croatia, as well as examples of calculating tax obligations.

## 1.5. Quiz and Exercise

### Quiz

1) Who is not a taxpayer of VAT in Croatia?

- a) Any person who independently carries out any economic activity, irrespective of the purpose and performance of that activity.
- b) Any person who at least 50% of time has a permanent residence or a habitual resident in the Republic of Croatia.
- a) In the territory of the Republic of Croatia, a taxpayer who does not have a head office, a business unit, a permanent residence or a habitual residence, and performs domestic deliveries of goods or services where place of taxation in the Republic of Croatia.
- b) State authorities, state administration bodies, bodies and units of local and regional self-government, chambers and other bodies with public authority, if they carry out economic or other activities, as the non-taxation of these activities would lead to significant distortion of market competition.

2) What are applicable VAT rates in Republic of Croatia?

- c) 12%, 25%
- d) 5%, 13% i 25%
- e) 10%, 13% i 22%
- f) 5%, 12%, 25%

### Exercise:

In the Law on Value Added Tax, please find on what kind of objects does lower VAT rates applies?

Solution:

On the Internet, please find the Law on Value Added Tax. Application of standard and lower VAT rates are explained in Article 38., as: 5% - lower rate: eg. bread, milk, medicines and medical aids, books and others; 13% - lower rate, eg. accommodation, food preparation, newspapers, magazines, oils, baby food, water, sugar, concert tickets...

Please, folow this link:

[https://www.porezna-uprava.hr/hr\\_propisi/\\_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=cla48994](https://www.porezna-uprava.hr/hr_propisi/_layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=cla48994)

### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

## **2. Basics of accounting**

### **2.1. Overview / Theoretical framework**

This unit is designed to introduce Accounting to the learners. It will familiarise learners with some important basic accounting terms, accounting standards and accounting concepts.

After reading this unit, you will be able to:

- Understand the meaning of accounting.
- Differentiate between various concepts of accounting.
- Analyze the importance of accounting.

#### **2.1.1. Introduction**

Accounting is a framework that measures business activities, forms data and information into reports and makes that information accessible to decision-makers. The reports, which impart this information about the performance of an association in fiscal and financial terms, are called financial statements. Commonly, accounting is called the Language of Business. Be that as it may, a business may have a considerable number of aspects which may not be of monetary nature. In that capacity, a better method to comprehend accounting could be to call it *The Language of Financial Decisions*. Numerous parts of our lives depend on accounting: personal financial issues, investments, tax, loans, and so forth. However, we shall limit our scope of discussion to a business organisation and more specifically, to the investments of an organisation or an individual. For that purpose, we need to understand the meaning, main objectives, and limitations of accounting.

#### **2.1.2. Meaning of Accounting**

Accounting is usually defined as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information" (American Accounting Association, 1977). This information has a primarily financial function. Therefore, Accounting is communication system used to document the activities of earnings – for business companies and not-for-profit institutions. Accounting provides information that allows for detailed and efficient judgments and decisions by the end-users of the information. The process of accounting offers these essential financial data to a wide range of individuals whose objectives for studying the data may vary widely. For example, bank officers may need a company's financial statements and data to evaluate the ability of the company to pay a loan. In addition, interested investors may want to compare financial data from different companies to help them decide which company represents the best investment. Also, the management of a company can receive and study important accounting data to make informed decisions. It is essential for a decision maker to have reliable and comprehensive information before they can make a decision and invest money and resources into something.

More specifically, accounting information is extremely valuable for prospective investors because they can use it to evaluate the financial impact of different alternatives. In this way,

they can monitor and reduce the risks involved in investment through using the judgment of professionals and experts to quantify the future financial consequences of taking an action or delaying an action.

Finally, it is commonly observed for accounting to be often confused with bookkeeping. Bookkeeping is defined as “a mechanical process that records the routine economic activities of a business” (Edwards J.D., et al. 2011). As it is widely accepted, accounting consists of bookkeeping; however, it also goes well beyond bookkeeping in scope. Accountants examine and interpret economic and financial information, prepare statements, audits, develop and design accounting systems, prepare financial studies, forecasts and budgets and provide a plethora of other services.

The **key objectives** of accounting can be summarized as follows.

- Recording

The most basic role of accounting is to record and summarize business transactions and balances. This process is often referred to as “bookkeeping” and is fundamental in managing any financial ventures and investments (read more about bookkeeping in unit 3: Basics of bookkeeping, bookkeeping rules).

This kind of information is not only useful for the managers of a business- (to keep track of the financial health and performance of a business) but is also important for prospective investors and other stakeholders.

- Planning

Organizations and individuals need to plan how they will allocate their limited resources (e.g. cash, labor, materials and equipment) so that they can reach the competitive demands of the future. An effective manner of doing so is through the use of various forms of budgets.

Budgeting is a prime component of managerial accounting. Budgets permit organizations and individuals to plan for the future by anticipating future needs and resources.

- Decision-Making

Accounting’s other important role is to provide information and analysis for decision-making and control. Accounting provides a basis for evaluation of the overall performance over a time period which promotes accountability.



Figure 1: Key objectives of Accounting



For the information on the branches of accounting, accounting concepts and conventions together with the information on accounting as an information system, please see Annex 2.1.2. a), b), c).

## 2.2. Important / exceptions

### IX. Imitations of accounting

Regardless of accounting's huge advantages, there are limitations of accounting that every accountant, advisor, businessperson and student must be aware of.

The main limitations of accountancy and financial statements fall into the following categories:

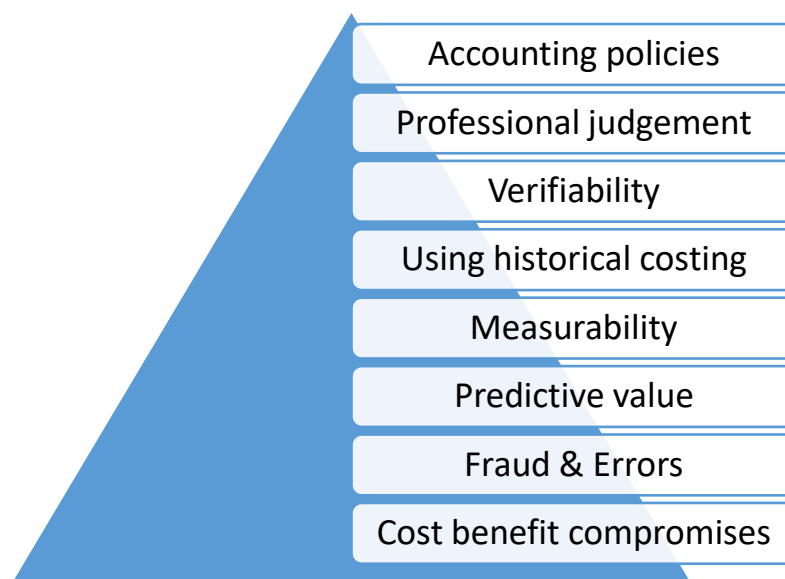


Figure 2: Limitations of Accounting

1. Accounting policies: often accounting policies vary from country to country as there is no global standard and this creates confusion.
2. Professional judgement: professional judgement is common when applying accounting policies. Because it is subjective, the interpretation of the accounting standards and application will create differences in the judgement.
3. Verifiability: an audit can provide reasonable but not undeniable guarantees of the accuracy of financial statements.
4. Using historical costing: using the method of historical cost to measure assets does not manage to account the changes in values over time. This again leads to the trap of making accounting information subjective, as the assets may not have the same value today.
5. Measurability: financial statements cannot estimate resources that don't have a monetary value. Consequently, these resources will not be assigned a reasonable value.

6. Predictive value: as financial statements present the accounting picture of a company in a past period, there is often limited insight into prospects and lacks predictive value that is essential for investors.
7. Fraud & Errors: to err is human; usually, there is always room for errors and/or fraud in financial statements. This can ultimately undermine the credibility and reliability of the statements and all information.
8. Cost benefit compromises: the quality of accounting information can be compromised due to the cost of producing reliable information.

### 2.3. Tips from professionals

One of the most common challenges that Accountants nowadays face are the rapid technology changes that have a considerable effect on the sector.

As David Emmerman, CPA and Xero Ambassador, said “accountants need to adapt to the new technology that’s coming out there and not be afraid [...] and move forward with everything, [Accountants need to] look at better processes that our clients can really embrace and will allow them to be more successful, which in turn, allows us to be more successful.”

You can find the interview here: <https://youtu.be/MDP75xqvzlg>

### 2.4. Additional reading (more information and useful links)

You can read more about basic accounting theory, concepts, principles and branches in the following material:

American Accounting Association (1977). *A statement of basic accounting theory*. Sarasota: Evanston, III.

Bragg S. (2017). Basic accounting concepts. Available on: <https://www.accountingtools.com/articles/basic-accounting-concepts.html> (22.02.2018).

Edwards J.D., Hermanson R. H., Buxton B. (2011). *Accounting Principles: A Business Perspective, Financial Accounting (Chapters 1 – 8): An Open College Textbook*. Available on: <https://www.saylor.org/site/wp-content/uploads/2011/11/BUS103-TEXTBOOK.pdf> (20.02.2018).

Fontinelle A. (2018). *Introduction To Accounting Information Systems*. Available on: <https://www.investopedia.com/articles/professionaleducation/11/accounting-information-systems.asp#ixzz57Geo9dKM> (20.02.2018).

Wohlner R.. *Accounting Basics: Branches of Accounting*. Available on: <https://www.investopedia.com/university/accounting/accounting2.asp#ixzz57GMI1FpM> (20.02.2018).

Xerocon SF 2016 Interviews and Highlights. (2016, August 17). Available on: <https://www.accountingweb.com/hub/xerocon-sf-2016-interviews-and-highlights> (20.02.2018).

## 2.5. Quiz and Exercise

### Quiz

1. Which one is not a key objective of Accounting?
  - a) Recording
  - b) Decision-Making
  - c) Planning
  - d) Presenting
  
2. What is considered one of the main branches of Accounting?
  - a) Financial Accounting
  - b) Accounting for FDI
  - c) Business Accounting
  - d) Basic Accounting
  
3. Which is not a main limitation of Accounting?
  - a) Professional judgement
  - b) Verifiability
  - c) Fraud & Errors
  - d) Financial transactions

### Exercise

Accounting Information System (AIS) is “a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies”. **After reading this unit, note down how and in which ways Accounting can support FDI Advisors?**

**Solution:**

### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

### 3. Basics of bookkeeping, bookkeeping rules



#### 3.1. Overview / theoretical framework

Bookkeeping is the most important part of accountancy, it is orientated in the past, and only records business events. Bookkeeping is a business function whose task it is to track business changes in business operations that reflect the assets, liabilities, capital, revenues and costs of each business entity. Recording business changes are based on business documentation, ie a set of documents that follow a certain business change (input, output) to determine how certain changes have occurred. The aforementioned documents contain all the information that is required for the Bookkeeper to work successfully, and monitor the business changes. Bookkeeping is a demanding task that does not suffer superficiality and improvisation.

After reading this unit, you will be able to:

- understand the basics of bookkeeping and bookkeeping rules
- realise the differences between accountancy and bookkeeping
- learn what is an Account plan

##### 3.1.1. Introduction

Bookkeeping is part of accountancy in which records of business events are recorded in business books using the dual bookkeeping method. In double-entry bookkeeping, business changes are reported that lead to an increase or decrease in assets, liabilities or capital. It is important to note that a business change has to be recorded and must be worth value. The principle of double-entry book-keeping is based on the fact that any business change leads at the same time to an increase in an asset item while simultaneously reducing another asset, liability item or capital.

##### 3.1.2. Differences between accountancy and bookkeeping

Bookkeeping is the daily entry of business changes into the accounting system, ie the recording and classification of routine transactions, while the accountant must have a wider range of knowledge and skills.

Accountants must understand financial reporting, many regulations, in particular income tax rules, value added tax, accounting standards, and be able to present all types of accounting information to managers, present financial statements and offer alternative solutions that would improve and optimize business operations.

Accounting can be defined as the most important source of information about the company, ie a comprehensive system of records in which plans, records, controls and analyzes of the assets and operations of the Company can be performed, and on that basis, compiles the accountancy and financial statements.

Accounting is the skill of recording, classifying and shortening the presentation in the cash units of expressed business transactions, and interpreting the results.

Accounting is a service function that collects, processes and presents accounting information about business operations and interesting users.

### **3.1.3. Account plan**

The Account Plan appeared in accountancy for the first time at the end of the 19th century, while its more significant application began in the fifties of the last century. The Account Plan is an instrument by which the main book items are sorted in such a way that the user can easily and organizedly read what is recorded in the business owner's main book. This is achieved in such a way that each group of items in the balance sheet carries its own broader range according to the previously established accounting plan. The way entrepreneurs make a computational plan is different in some countries. Hence, the obligation to apply a computational plan may be regulated in the sense that:



- it is recommended to apply a Account Plan
- elaborating on the content of an account plan an entrepreneur, and the state establishes an accounting framework
- the state prescribes the content of the account plan for which the required obligations have been prescribed

In Croatia, pursuant to the Accounting Act of January 1, 2017, the obligatory contents of the Account Plan have been determined. The unique framework plan covers the classes and accounts and synthetic accounts that are applied for the purpose of recording bookkeeping

changes, including their numeric and lowercase and off-balance sheet accounts, all of which must be allocated in accordance with the requirements applicable to the preparation of the financial statements. Accounting Act, Article 11, paragraph 1, NN, 78/15).

The business plan's contingency plan must be drawn up to provide data for separate and consolidated financial statements and must comply with the prescribed framework plan. The entrepreneur may, if necessary, extend the outline plan during the business year. If the account list does not change with the first day of the new reporting period, the entrepreneur may continue to use the contingency plan he applied in the previous reporting period. (Accounting Act, Article 11, paragraph 2, NN, 78/15).

### **3.1.4. Account Schedule in Accounting Plan**

The principles that are the basis of the classifications of the account plan, as well as their positions in the balance sheet, the profit and losses of the account, and other financial statements.

The basic classification of positions are:

- Assets (assets)
- Capital (principal) and liabilities (obligations)
- Expenses
- Income
- The result of the current period

In Croatia, as of 1 January 2017, a computational plan will be applied in the principle of classification of accounts, according to the functional principle of the allocation of positions. In practice, the following principles still apply:

- Balance sheet
- Combined

Functional Principle - The concept of this principle is to input positions according to their movement in position conversions.

Developing Account Schedules according to the Functional Principle below:

CLASS 0 - long-term assets, receivables for registered and unpaid capital

CLASS 1 - money, short-term receivables, short-term financial assets, costs for the future period and accrued income

CLASS 2 - short-term liabilities, deferred payment of expenses and income for the upcoming period

CLASS 3 - stock of raw materials and materials, spare parts and small inventory

CLASS 4 - business expenses

CLASS 5 - internal calculation (free development)

CLASS 6 - current production stocks, goods, merchandise, biological assets and non-current assets available for sale

CLASS 7 - expenditures and revenues

CLASS 8 - business results

CLASS 9 - equity and reserves, long-term provisions, long-term liabilities and off-balance sheet items

*Balancing principle* - the characteristic of this principle is the account plan in which positions are classified in the balance sheet and in the income statement. This means first entering the accounts of the assets and then the liabilities, next the expenses of the accounts, and then income and operating results.

*The combined principle* - applying this principle to the accounts is divided by a combination of the function and balance principles

For the information on the accounting principles and accounting based on legal and professional standards, please see Annex 3.1.4. a), b).

### **3.2. Important / exceptions**

In order to define which group an entrepreneur belongs to and which accounting standards apply, the Accounting Act (N.N.78 / 2015, July 17, 2015) has classified the entrepreneurs in the manner defined below.

Entrepreneurs are divided into micro, small, medium and large, depending on the indicators established on the last business day of the previous business year, for which the financial statements are prepared. Indicators which are the basis for determining which business falls into which category, are divided as such:

- the amount of total assets
- the amount of revenue
- average number of employees during the business year

Micro enterprises are those who do not exceed the boundary indicators in two of the following three conditions:

- total assets 2.600.000,00 kunas
- income HRK 5.200.000,00
- average number of employees during the business year - 10 workers

Small enterprises are those which are not microenterprises, and do not exceed the boundary indicators in two of the following three conditions:

- total assets HRK 30.000.000,00
- income HRK 60.000.000,00
- average number of employees during the business year - 50 workers

Medium-sized enterprises are those which are neither micros or small entrepreneurs, and do not cross the boundary indicators in two of the following three conditions:

- total assets HRK 150.000.000,00
- income 300.000.000,00 kuna
- average number of employees during the business year - 250 workers.

Large enterprises are:

- undertakings crossing the marginal indicators in at least two of the three conditions referred to in paragraph 4 of this Article
- Banks, Savings Banks, Housing Savings, Electronic Money Institutions, Insurance Companies, Reinsurance Companies, Leasing Companies, UCITS Fund Management Companies, Alternative Investment Fund Management Companies, UCITS Funds, Alternative Investment Funds, Pension Managed Companies compulsory pension funds, voluntary pension funds, voluntary pension funds, compulsory pension funds, pension insurance companies, retirement companies, factoring companies, investment companies, stock exchanges, central clearing companies, registers, Settlement and / or Settlement System Operators and Operators of the Investor Protection Fund, irrespective of whether the requirements of item 1 of this paragraph are met.
- Newly established enterprises and statutory enterprises shall be classified in accordance with paragraphs 2, 3, 4 and 5 of this Article on the basis of the indicators for the period from the date of establishment or status change by the end of their first business year or the last day that period. For the purposes of classification, the undertakings referred to in this paragraph, the amount of revenue is converted to the annual level. (Accounting Act, NN 07/15, <http://narodne-novine.nn.hr>). The classification criteria implies the status and amounts as of 31 December of the year preceding the year for which the classification is to be made.

### **3.3. Tips from professionals**

Existing accounting systems in the Republic of Croatia are characterised by certain specifics. One of these specifics is the application of the appropriate accounting concept. The accounting concept represents the totality of the applied general accounting assumptions and the chosen accounting basis, ie the choice of the exact moment of recognising transactions or events in the financial statements of the reporting period.

Accounting concepts differ, therefore, it is important to define the exact moment when the measurement and recognition of elements of financial statements have been carried out - whether this should be at the time that the cash flow was created, or at the time of the business event. The accounting concept also points to the basis of measurement of the elements of the financial statements, ie whether the total economic resources, financial resources, only the current part of the financial resources, or the cash flow and the balance are measured. In the aforementioned scenario, two fundamentals of accounting concepts are distinguished: the cash concept (the cash principle) and the concept of the event, also known as the accounting concept.

### **3.4. Additional reading (more information and useful links)**

- Alfio Barbieri, "Accounting Cash Flow Analysis of a Client in a Debt Relationship with a Bank", <https://hrcak.srce.hr/file/45039>

In professional publications, the author acquaints readers with the methodology of determining the cash flow at a client level in a debt relationship with the bank. Determining the cash flow, at the level of a particular client, and even a client in a debt relationship with



the bank, is of fundamental importance for the needs of estimating and budgeting the cash flow, both at the client's level and at the bank level.

- Vašiček, Davor and Sikirić, Ana Marija, "Calculation Accounting Principle in Nonprofits Organizations - Challenges and Advantages", [https://bib.irb.hr/datoteka/834669.Vasicek\\_i\\_Sikiric2.doc](https://bib.irb.hr/datoteka/834669.Vasicek_i_Sikiric2.doc)

The paper analyzes the information on the consequences that the accounting concept has on the financial position of non-profit organizations (hereinafter NPOs) and provides recommendations for improving the accounting system. In order to increase transparency in Croatia, the foundations of financial operations and accounting of NPOs is based on the application of the accounting baseline, which is an approximate application of the IAS. The Accounting Information System used by the NPO today responds to the requirements of transparency as it provides insight into the spending of resources from public sources, and enables comparability in accordance with EUROSTAT standards. In the application of the accounting concept, controversy occurs when identifying some of the elements of the financial statements.

### 3.5. Quiz and Exercise

#### Quiz

1) Which of the following is not a basic classification of positions in the account plan:

- a) Assets
- b) Capital and liabilities
- c) Money
- d) Income

2) Companies that do not exceed the boundary indicators in two of the following three conditions: total assets HRK 30.000.000,00; income HRK 60.000.000,00; the average number of employees during the business year - 50 workers, are considered to be:

- a) a micro-entreprise
- b) a small entreprise
- c) a medium-sized enterprise
- d) a large entreprise

#### Exercise:

Try to explain the most important accounting principle and elaborate your opinion.

#### Solution:

#### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

## **4. Economic categories**

### **4.1. Overview / Theoretical framework**

This chapter is designed to introduce concepts of economic categories, their classification and basic features to the learners.

After acquiring knowledge from this Unit, learners will be:

- proficient in basic concepts of economic categories
- able to identify the characteristics of economic categories and their basic classification.

#### **4.1.1. Accounting Categories**

Accounting categories and terms are defined by accounting standards. These are the principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements. Accounting standards are not static. They are being continuously complementing and changing, parallel to the development of accounting theory and practice.

Croatia is applying domestic and international financial reporting standards as accounting standards and are subject to the Accounting Act.

The Croatian standards are established and interpreted by a professional body - the Financial Accounting Standards Board, while the international financial reporting standards are regulated by the EU Regulation.

According to accounting standards, accounting categories include: assets, liabilities, capital, income, expense, profit.

Each category will be briefly described below.

##### **A. Asset**

An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit. Assets are generally brought in business to benefit from them and to increase the value of a business. An asset may be used individually or in combination with other assets in the production of goods or services that an entrepreneur will sell, exchanged for another asset, used to settle obligations or divided among the owners.

Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations. An asset can be thought of as something that in the future can generate cash flow, reduce expenses, improve sales, regardless of whether it is a company's manufacturing equipment or a patent on a particular technology. One of the classifications of assets is based on their physical existence. According to this classification, an asset is either a tangible asset, intangible asset or money.

According to classification of the assets based on their function and a lifetime, there are two types:

- fixed assets
- current assets

Fixed asset is something that is expected to continue to be productive for a business for more than one year. An entrepreneur uses it in his business. During usage it is gradually wearing off and depreciating, but does not change its shape. Fixed asset can be in a form of intangible assets, tangible assets, financial assets and claims with a due date of more than one year.

Intangible fixed asset is a non-physical asset having a useful life greater than one year. This asset may be in a physical form and in the form of a contract etc.

Intangible fixed asset includes R & D expenditures, foundations' expenses, concessions, patents and licenses, trademarks, investments in other assets, goodwill, prepayments for intangible assets and others.

R & D expenditures are expenses used for the research and development of new products and technologies, results of which are expected to be used for more than one business year.

Patent is a set of exclusive rights granted to an inventor for the invention, which is a solution to a specific technological problem. Patent is recognised for the inventions relating to the product, process or application. When patent protection is granted, the invention becomes the property of the inventor, which like any other form of property or business asset can be bought, sold, rented or hired for a limited period of time. The rule states that it may not last for more than 20 years from the date of filing the application, after which it becomes public good. Patent can be reported on the balance sheet under intangible assets only if it is acquired from others.

Licence is the purchase of a permission, i.e. a license to use one's patented invention or a protected intangible asset. The time right to use or the right to produce a certain amount of product is determined by a license agreement that is legally regulated by the Civil Obligations Act.

Franchise is a right acquired by paying a fee for a particular business. It is considered to be a fixed intangible asset because as it is pre-paid for multiple business years.

Concession is a contractual right when one party grants another party goods or the rights of their economic usage and the other party pays the fee for those rights.

Trademark guarantees the owner **exclusive right** to place on market the products and/or services identified and protected by its recognisable sign. The trademark protection in Croatia, as well as in many other countries, is valid for ten years, counting from the date of filing the application. The protection rights may be unlimitedly extended for periods of ten years, provided that the application is filed on time (generally before previous ten years have expired) and that corresponding fees and charges are paid.

Goodwill is the difference between the value of a company on the stock market at a certain time and its accounting net set of assets. It is an "intangible" fixed company's asset, which enables it to make a higher profit than the normal or classic profit rate, made by other similar type of companies.

Tangible fixed asset is an asset that has a physical form. It includes land, construction facilities, plants and equipment, tools, operating inventory and transport assets, residential buildings and flats, prepayments for fixed tangible assets, fixed tangible assets under preparation. Belak, V. (2006). *Profesionalno računovodstvo*. Zagreb. Deloitte. Str. 156

Fixed (long-term) financial assets are shares in affiliated entrepreneurs, loans given to affiliated entrepreneurs, interests, investments in bonds, loans, deposits, personal shares etc.

Current (short-term) assets are expected to be converted into cash in a very short time, usually within one year. Commonly they include: money, investments in active securities and supplies. Current assets appear in all three basic forms: goods, rights and money.

The balance sheet of the current (short-term) assets includes:

- supplies
- short-term receivables (from customers, affiliated companies, employees, government)
- short-term financial assets (received short-term securities - cheques, bills), short-term given loans, given deposits, shares in affiliated companies etc.)
- cash and cash equivalents (money in the bank and in the cash registers, foreign currency payments etc.)
- actual time delays (prepaid costs for the future periods and undue revenue collection).

## **B. Liability**

A liability is a company's financial debt or obligations that arise during the course of its business operations. Recorded on the right side of the balance sheet, liabilities include loans, mortgages, obligations towards suppliers, deferred revenues etc.

According to the International Accounting Standards, the liability is defined as the current obligation of the company resulting from past events. The settlement of those liabilities would result in the outflow of resources containing economic benefits. Liability is the duty or the responsibility to act or do something in a certain way. Liabilities can be legally enforceable and can be derived from business practices. Payoff of the current liability can be accomplished in several ways: by cash payment, by transferring another asset, by providing services, by replacing one liability with another one, or by creditor losing his rights or waiving them. According to the payment deadline, there are two types of liabilities:

Short-term liabilities are expected to be settled within one year, counting from the balance sheet date. Short-term liabilities include liabilities for received loans, deposits from citizens or other companies from the country or abroad with a payment deadline of less than a year.

Long-term liabilities are usually incurred for the purpose of acquiring long-term assets, or refinancing long-term assets that have not matured.

## **C. Capital**

Capital refers to financial assets or the financial value of assets, which is left to the owners after all liabilities are settled. In the case of a joint-stock company, the capital is expressed as a "share capital" and when it comes to a limited liability company (Ltd.), it is expressed as a "registered basic capital". The balance sheet is breaking down liability into the registered capital, capital reserves, reserves, revaluation reserves, retained earnings, profit or loss brought forward, the earnings or loss for the current year.

Capital can be invested in several forms:

- money: by paying to a giro account of your company

- things: by putting the plant, equipment, supplies etc. into your company
- rights: by entering a patent, license or some other right into your company.

Regardless of whether it is a joint-stock company or a limited liability company, the capital includes:

- equity capital brought directly to the company by owners
- earned capital.

The earned capital is the result of business activities of the entrepreneurs. It is the difference between income and expense after taxation, i.e. after payment of capital gains tax. Based on the decision of the company's management, instead of being paid to the owners, the earned capital can be transferred to retained earnings.

There are several ways to increase your own capital:

- by bringing the new basic capital to the company, by new members joining the company
- by recapitalization, i.e. by increasing the basic capital by the existing members of the company
- in the case of joint stock companies (d.d.) with public offering and capital gains.

Capital reduction occurs in the following cases:

- current year losses,
- the payment of gains for the current year or retained earnings of previous years to the owners, i.e. the payment of dividends to shareholders in the case of the joint stock companies
- the repayment of the stake from the basic capital to the investor who exits the company
- impairments from revaluation reserves of reduced value of already revalued long-term assets.

#### **D. Income**

Income is the gross of cashflow, claims or other benefits arising from the regular activities of the company from the sale of goods, provision of services and from the use of resources of other companies that make interest on royalties and dividends. Income is measured by claims from buyers and customers for delivered goods and services performed, and by fees and merits resulting from the use of buyers' and customers' resources. Amounts charged on behalf of third parties, such as certain taxes, are excluded. In a representative relationship, the income is the amount of commission, rather than the gross cashflow, claims or other fees.

Income recognition mainly refers to the situation when the income is recognized in the company's profit statement. The amount of the income deriving from a transaction is usually determined on the basis of an agreement between the parties involved in the transaction. When there are uncertainties regarding the determination of the amount or the related costs, these uncertainties could affect the determination of the time of the income recognition.

Income recognition requires that the income can be measured and that its final collection can be expected at the time of the sale or providing services. The real expectation of the final income collection does ensure that payment by itself.

Where there is not possible with certainty to estimate the payment at the time of sale or provision of services, the income recognition is delayed. In such cases it is appropriate to recognise the income only when money is received. If there is no uncertainty when it comes to the final collection, the income is recognised at the time of the sale even when cash payments are made in instalments. The main types of income are business, financial and super-normal profit.

Business incomes are made during the regular company's business, i.e. by selling finished goods, by providing services, renting land, business premises etc.

Financial incomes are made through positive exchange rate differences and interest rates for lending financial resources to a legal or natural person.

Super-natural profit was not generated by the company's regular business activities. This type of income includes excess of materials, income from penalties etc.

### **E. Expenses**

Expenses are decreases in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in decrease in equity, other than distribution to owners. Recognition and measurement of expenditures depends on the concept of capital and its preservation used by an entrepreneur when compiling and presenting financial statements. Expenses are recognized in the income statement when the reduction of future economic benefits results from a decrease in assets or an increase in liabilities, and which can be reliably measured. This means that the recognition of expenses occurs at the same time as the recognition of an increase in liabilities or decrease in assets. The main types of expenses are business, financial and super-normal expenses.

Business expenses are the result of the company's core business and their level depends on the volume and type of business. This includes the costs of production incurred due to the effects making, the purchase of merchandise goods, administrative expenses and other expenditures needed for basic business processes; purchase and sale expenses (if specifically accounted for), and subsequent adjustments to costs that are accounted for as operating expenses.

Financial expenses are the result of obtaining, using and reimbursing financial resources. Financial expenses include: negative interest rates, negative exchange rate differences, a decrease in the value of long-term and short-term financial investments and the coverage of the negative balance of revaluation reserves.

Super-normal expenses are the result of unplanned downsizing of business assets or unplanned increase in liabilities. Most often they are the consequence of irrationality from the previous period or because of the influence of the environment (they do not occur when creating effects). This means that they do not result in new values and they do cause the decrease in business results.

### **F. Business result**

The business result represents the success of an enterprise expressed by monetary scales. Comparison between income and expenses reveals the financial results. When the income is higher than the expenses, then the financial result is positive (gain). Loss represents a negative financial result when the expenses are higher than the income.

According to accounting regulations, the company establishes a net gain in the amount of difference between the established profit and profit tax. In the case that the established profit before tax is not sufficient for taxes and contributions, a net loss is established in the amount of difference between the amount of tax and the established profit. If before taxation a loss is recognised, before the taxation the amount of the loss is increased for the amount of profit tax, and a net loss is established.

After determining the business results, and based on a written decision of the owner or management, the profit is distributed and the loss compensated. In the case of a loss in the

business, it is reimbursed from reserves, retained earnings from previous years etc., in order to enable further business operations. When it is not possible to cover the loss, a bankruptcy proceeding is initiated, followed by the liquidation of the company.

For the information on the accounting recording of all economic categories, please see Annex A.

#### 4.2. Important / exceptions

Investment adviser needs to understand the different economic categories in order to be able to talk about business investments.

#### 4.3. Tips from professionals

To read and understand the financial statements, plans, projects etc., it is necessary to understand the concepts of economic categories and to be able to identify their features.

Financial report's content: Balance sheet:

<b>ASSEST</b>		<b>LIABILITIES</b>	
DEMANDS FOR REGISTERED BUT UNPAID CAPITAL	0,00	CAPITAL AND RESERVES	48.000,00
LONG-TERM ASSET	20.000,00	BASIC REGISTERED CAPITAL	20.000,00
Intangible asset	7.000,00	RESERVES AND PROFIT	0,00
Tangible asset	10.000,00	REVALUATION RESERVES	0,00
Financial asset	3.000,00	FER VALUE RESERVES	0,00
Demands	0,00	RETAINED EARNINGS OR CARRY-FORWARD LOSS	18.000,00
SHORT-TERM ASSET	78.000,00	BUSINESS YEAR PROFIT OR LOSS	10.000,00
Reserves / Inventory	38.000,00	MINORITY INTEREST	0,00
Demands	20.000,00	RESERVING	0,00
Financial asset	5.000,00	LONG-TERM LIABILITIES	10.000,00
Cash on the account or in the register	15.000,00	SHORT-TERM LIABILITIES	38.000,00



PAID FUTURE PERIODS' COSTS		POSTPONED LIABILITIES' PAYMENT AND FUTURE PERIODS' INCOME	2.000,00
ASSEST TOTAL	98.000,00	LIABILITIES TOTAL	98.000,00
Off-balance records		Off-balance records	

Balance sheet of success (Profit and loss account)

BUSINESS INCOME	380.000,00
BUSINESS OUTCOME	369.000,00
FINANCIAL INCOME	2.000,00
FINANCIAL OUTCOME	1.000,00
INCOME TOTAL	382.000,00
OUTCOME TOTAL	370.000,00
INCOME BEFORE TAX	12.000,00
OUTCOME BEFORE TAX	0,00
CORPORATION TAX	2.000,00
INCOME FOR THE PERIOD	10.000,00
OUTCOME OF THE PERIOD	0,00

**4.4. Additional reading:**

Official web page. State intellectual propriety office. Available on: <http://www.dziv.hr/> (20.02.2018)

Official Gazette. *International standards of financial reports*. Available on: [https://narodne-novine.nn.hr/clanci/sluzbeni/1993\\_04\\_36\\_672.html](https://narodne-novine.nn.hr/clanci/sluzbeni/1993_04_36_672.html) (20.02.2018)

Official Gazette. *Croatian standards of financial reports*. Hrvatski standardi financijskog izvještavanja, [https://narodne-novine.nn.hr/clanci/sluzbeni/2008\\_03\\_30\\_992.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2008_03_30_992.html) (20.02.2018)

Zakon.hr. *Law on accounting*. Available on: <https://www.zakon.hr/z/118/Zakon-ora%C4%8Dunovodstvu> (20.02.2018)

**4.5. Questions and exercise:**

1. What are accounting standards?

a) The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of statistical statements.

- b) The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements.
- c) The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of public notes.
- d) The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of tax declaration.

2. What is an asset?

- a) An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing expense of future economic event.
- b) An asset is a resource or property having a monetary/economic value, owned by state, which is capable of producing some future economic entrepreneurs' benefit.
- c) An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit.
- d) An asset is a resource which is a result of future business events, owned by an individual or entity, and is capable of producing entrepreneurs' economic benefit.

**Exercise:**

Which from the following list of assets is part of active and which of passive in financial report?

Money in cash registry  
Finished goods inventory  
Suppliers' liabilities  
Business year's profit  
Business establishment

**Rate the answer:**

- a) correct
- b) incomplete
- c) wrong

## 5. Using relevant applications in practice - posting of the most common events in a company / private entity



### 5.1. Overview / theoretical framework

In this part of the thematic unity, the relevant practices in the posting of business events are explained using practical examples. The practical examples provide a clear and easy understanding of the process of registering business changes in the company. In order to present the relevant practices in the posting of business changes, each posting contains an explanation that gives the reader an additional insight into the matter.

After reading this unit, you will be able to:

- read and present practical examples related to posting of business changes

#### 5.1.1. Introduction

The Accounting Act prescribes the obligation to keep books according to the rule of double-entry bookkeeping. The proper posting of data must meet the following criteria (algebra.hr):

- it is based on an appropriate document,
- the information entered is in the Croatian language,
- data are entered in a continuous sequence without leaving a free space,
- no possibility to delete and change the original text and the amount,
- posting of data immediately upon the occurrence of a business event, depending on the time of arrival of a document for bookkeeping,
- respecting the principle of an unchangeable record.

Below are the posting examples based on the most important economic categories.

#### 5.1.2. Intangible assets

The most common examples of assets classified as intangible are computer software, publishing rights, development expenditures, brands, know-how, goodwill, patents, licenses, concessions, trademarks and similar rights, franchises, licenses, marketing rights, design...

If we accept one of many definitions of intangible assets that defines it as being non-physical (intangible) and which can be identified, it cannot be expected that a person who has not gone

deeper into the analysis or is not professionally involved in financial-accounting activities can understand what can and should be deemed as an intangible asset.

From the accounting aspect, intangible assets are defined by the Croatian Financial Reporting Standards no. 5 and International Accounting Standards no. 38.

These standards require the ability to identify assets and a control over them. The identification of an intangible asset implies its authenticity, which results from the possibility of separate sales, transfer, licensing, leasing or exchange. Also, the control over the means implies the possibility of realizing of the future economic benefit that needs to flow from the use of the means.

The most common examples of assets classified as intangible, according to the abovementioned standards, are computer software, publishing rights, development expenditures, brands, know-how, goodwill, patents, licenses, concessions, trademarks and similar rights, franchises, licenses, marketing rights, design, etc.

Intangible assets can be internally developed within the company, but according to the provisions of the abovementioned standards, the research phase and the development phase need to be distinguished. The expenses incurred in the research phase cannot be capitalized (attributed to the value of the intangible asset) but should be treated as costs incurred in a specific period. In the development phase, in order to attribute the costs incurred to the assets, the technical feasibility of the intangible asset to be completed must be proven, so that it is available for use or sale, the intent of the entity to complete the intangible asset, the availability of appropriate sources for the completion of the development phase, the possibility of the use or sale of assets, the possibility of reliable measurement of the costs incurred and which are attributed to the intangible assets during the development.

Intangible assets may have a limited and unlimited useful life. In the case of a limited useful life, the asset is amortized (in case the business entity uses regular annual depreciation rates - up to 25%, ie in case of accelerated annual depreciation rates, up to 50% - in accordance with the provisions of the Income Tax Act, Article 12). Unlimited useful life implies the inability to estimate the timeframe when the entity will receive cash inflows from using the asset and the asset will not be amortized.

A very common example in practice is the acquisition of software or investment in property such as an investment in a rented space (author of the example, Nataša Mesić).

Example 1:

The entrepreneur has obtained a computer software license at the price of 2000,00 kn with VAT:

Computer software 01200

---

1600,00 kn

A claim for input tax 25% 18002

---

400,00 kn	
-----------	--

Obligation to the supplier 2200

---

	2000,00 kn
--	------------

Example 2:

Based on the long-term lease contract, the entrepreneur has invested in the necessary space adjustment HRK 100,000 with VAT. Based on the above-mentioned business event, we carry out the posting in the main book into the account of investment on borrowed assets for the improvement in the course of the lease contract, into the account of the obligation to the supplier providing the renovation service and into the account of the obligation to pay the VAT to the state:

Investment in borrowed assets 0121

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80.000,00 kn	
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Claim for input tax 25% 18002

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20.000,00 kn	
--------------	--

Obligation to the supplier 2200

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	100.000,00 kn
--	---------------

### 5.1.3. Tangible Assets

"Fixed assets are assets that will be realized over a period of more than a year, ie having a lifetime of more than one year or assets that will be realized or held for sale or consumption for a period longer than the business cycle of a business entity. The primary purpose of this form is not the resale, but the use in the business process (Petermanec, 12, 2015)«.



In order to classify and define an item as tangible fixed assets, the following conditions should be met (Petermanec, 12, 2015):

- the company owns and uses those assets in the manufacture of goods or in the delivery of goods or services, for renting to others or for administrative purposes,
- it is an asset that is expected to be used for more than one period, ie longer than a year,
- when it is probable that the future economic benefits associated with the asset will flow into the company,
- when the cost can be reliably measured. (MRS 16, [www.propisi.porezna-uprava.hr](http://www.propisi.porezna-uprava.hr))

»Real estate, plant and equipment purchased exclusively for the purpose of further sale within the core business are not classified as non-current assets but as inventories. In such a case, real estate, plant and equipment are defined as current assets because non-currents assets are defined as assets that do not have the characteristics of current assets. In accounting, this is important because the revenue and expenses when selling current and non-current assets are recorded in different ways (Petermanec, 13, 2015).«

»Fixed assets (immovable assets, plant and equipment) in most companies represent a significant part of the total assets and are therefore important in presenting their financial position. One of the main issues in accounting related to fixed assets is the choice of the moment of recognition of assets and recognition criteria (Petermanec, 13, 2015).

The following is an example of the addition of fixed assets and it is the procurement of a plant. The assumption is that there were no costs of putting the plant into operation and that it did not take a longer time to install the equipment or plant, and therefore there were no interest costs that could be attributed to the plant.



There is also the example of the sale of **fixed assets**.

The plant and equipment are not initially intended for sale in the ordinary course of business but this item of property may be sold due to obsolescence, replacement with a new one, etc. The assets can be sold at a higher or lower price than the book value, therefore both examples are given.

Example 1:

A bank loan of 500,000 kn was approved for the procurement of the production plant, thus the creditor paid directly to the supplier of the plant the amount of 500,000 including VAT.

Production plant 0300

1) 400.000,00 kn	
------------------	--

Claim for input tax 25 % 18002

1) 100.000,00 kn	
------------------	--

Obligation to supplier 2200

2) 500.000,00 kn	
------------------	--

	1) 500.000,00 kn
--	------------------

Obligation to banks for the loan approved 21400

	2) 500.000,00 kn
--	------------------

Example 2:

The property was sold at a lower price than the book value. The book value was HRK 200,000 and the property was sold at the price of HRK 170,000 plus VAT, so the realized loss was HRK 30,000.

Transport means-vehicles 03400

So 300.000,00 kn

100.000,00 kn 1)

200.000,00 kn 2)

Accumulated amortization of means of transfer 0394

100.000,00 kn 1)

VAT Obligations 25% 28020

42.500,00 kn 2)

Trade receivables 1200

2) 212.500,00 kn

Other operating income from the sale of tangible assets 77001

Disposal of tangible assets expenses 73021

2) 30.000,00 kn



Example 3:

The property was sold at a higher price than the book value. If we take the previous example where the book value is 200.000,00 HRK, and the property was sold at the price of 230.000,00 HRK plus VAT, therefore the realized profit is HRK 30.000,00.

Transport means-vehicles 03400

So 300.000,00 kn	100.000,00 kn 3) 200.000,00 kn 4)
------------------	--------------------------------------

Accumulated amortization of means of transfer 0394

	100.000,00 kn 3)
--	------------------

VAT obligations 25% 28020

	57.500,00 kn 4)
--	-----------------

Trade receivables 1200

4) 287.500,00 kn	
------------------	--

Other operating income from the sale of tangible assets 77001

	30.000,00 kn 4)
--	-----------------

Disposal of tangible assets expenses 73021

--	--

Explanation:

- 1) and 3) Accumulated depreciation is transferred into the tangible assets account and the unamortized cost of acquisition is determined
- 2) An invoice is issued to a buyer and VAT is recorded while the deficit is allocated into the expense account
  
- 4) An invoice is issued to the buyer, VAT is recorded and the surplus is allocated to the revenue account

Trade receivables are recorded on the debit side, since trade receivables are assets and their increase is recorded on the debit side.

The VAT obligation is recorded initially or as an increase on the demand side, since the increase in obligations and capital is recorded on the demand side.

#### 5.1.4. Short-term assets

Short-term assets are a form of a company's assets that can be converted into cash in the period up to one year (poslovni.hr). The capital invested in this type of asset constantly changes its form: available funds are used for the purchase of raw materials and wage payment, in the production process raw materials become semi-finished and finished products; by selling of finished goods claims are created and are finally converted into cash in the account and in the cash register (poslovni.hr).

– **The basic groups of short-term assets are** (poslovni.hr):

1. **Inventories:** raw materials and materials, ongoing production (unfinished production and semi-finished products), commodities, finished goods, advance payments;

2. **Claims:** claims of related companies, customers claims, claims for excess payments based on profit, employees claims, state and other institutions claims, other claims;

3. **Financial assets:** shares in related companies, loans to related companies, securities, loans granted; deposits and bails, purchase of treasury shares, other short-term investments;

4. **Money in the bank and in the cash register**

**Short - term assets are divided into** (knjigovodstvo-racunovodstvo.blogspot.hr):

- class 1 - money and rights (claims)
- class 3 - inventories (items) – raw material and material inventories, inventory, car tires, spare parts and packaging



- class 6 - inventories (items) of semi-products, finished products

**Money**

Doing business is possible under the condition that the entrepreneur opens a business account at one or more banks. It is a transaction account through which he will be making all the payments. This account is also called a "giro account".



1. The owner has paid into the giro account the share capital of HRK 200.000,00

Giro transaction accounts at banks 1000

200.000,00 kn

Share capital 9000

200.000,00 kn

**Explanation:**

The increase in assets (money) is recorded on the debit side, and the capital increase on the demand side because the recording is in balance and the assets and liabilities have been increased.

**Claims**

"Trade receivables are claims against buyers and others for money, goods or services. For the purposes of financial statements, receivables are classified as short-term or long-term. Short-term trade receivables are those that are expected to be collected within one year or during the current business cycle, depending on which period is longer. All other receivables are classified as long-term.

Receivables are further divided into trade and non-trade receivables.

Trade receivables are amounts owed by buyers for goods sold and delivered services as part of normal business activities. Trade receivables, usually the most significant of the company's assets, may be further classified as receivables from buyers and debentures.

Customer receivables, the oral promise of the buyer to pay for the goods purchased and the delivered services, are normally chargeable within 30 to 60 days and represent 'open accounts' arising from short-term credit extensions.

Debentures from buyers are written promises of the issuer of the debenture to pay a certain amount of money on a certain date in the future and may arise as a result of sales, financing or other business events.

Non-trade receivables may arise from various business events, and can be written promises of both payment and delivery. Some examples of such claims are: advances to officials and employees; advances to daughter-company; deposits to cover potential damages and losses; deposits serving as a guarantee of performance or payment; claims on dividends and interest etc. Due to its particular characteristics, non-trade receivables are generally classified and accounted for as separate balance sheet items (moj-bankar.hr)".

Receivables are part of the assets, and depending on their maturity, they are classified as long-term and short-term receivables. Those are fixed-maturity assets; we are talking about short-term receivables if they are expected to be realized within twelve months or long-term receivables if a maturity is longer. As defined by HSKI 11, receivables are recognized as an asset, only when the entrepreneur becomes one of the contracting parties to which the contractual terms and conditions apply (narodne-novine.nn.hr).

For the information on the classification of receivables according to their type, goods – retail, obligation and capital, please see Annex 5.1.4. a), b), c), d).

## **5.2. Important / exceptions**

A responsible accountant should commit to providing all his services in good faith, in accordance with the rules of the profession and conscientiously. Unfortunately, if the accountant's responsibilities are not contractually defined, it will be difficult to prove his sole responsibility for the omissions.

## **5.3. Tips from professionals**

Every bookkeeper must continuously improve his skills and knowledge, stick to the legal regulations and the ethics code. It is good to subscribe to relevant publications so that the person is always informed on changes to legislation. On the other hand, the business organization management is interested in the financial position of the company and its profitability. For this reason, the management aims to get the financial statements as often and as qucker as possible so it can take actions to repair areas with poor results. Investors will be particularly interested in the annual financial statements because they are the reports used by decision-makers outside the company. For example, if creditors see the balance at the end of the year as "strong", they will be more willing to give credit to the company than if the financial position of the company is weak.

## **5.4. Additional reading (more information and useful links)**

1. Burza weekly, the text author Mario Veršić, consultant and certified auditor, Finvers d.o.o. for business and financial consulting, Rijeka, <https://burza.com.hr/portal/sto-je-to-nematerijalna-imovina/7239>  
The article deals with the issue of intangible assets and their occurrence in the company.

2. Jelena Petermanec, Accounting and information subsystem of long-term assets in signal sistem d.o.o. company, final thesis, Juraj Dobrila University, Pula, Faculty of economics and tourism «Dr. Mijo Mirković», <https://repositorij.unipu.hr/islandora/object/unipu%3A600/datastream/PDF/view>  
In the paper, the emphasis is on the accounting information system of tangible fixed assets. The practical application of the company's accounting system is presented.
3. Portal Moj-bankar.hr, Trade receivables, <http://www.moj-bankar.hr/Kazalo/P/Potra%C5%BEivanja-od-kupaca>  
Portal Moj-bankar.hr is the leading portal specialized in financial products and services on the domestic market. The portal serves as a guide through financial products offered by banks and specialized institutions in the Republic of Croatia. The portal deals with issues of trade receivables, and introduces the reader into the field of claims. Other professional articles related to accounting can be found on the portal as well.
4. Algebra:<https://www.algebra.hr/certifikacijski-seminari/wp-content/uploads/2015/12/Knjigovo%C4%91a-preview.pdf>  
The article briefly shows the company's bookkeeping system and its basic elements that the trainee can use to briefly review basic accounting rules and elements.

## 5.5. Quiz and Exercise

### Quiz

1) According to the chart of accounts and the basic keys, current assets are divided into the following classes:

- a) 1, 3, 6
- b) 0, 4, 5
- c) 1, 3, 7
- d) 1, 4, 7

2) Which of the below is regarded as short-term financial assets?

- a) Reserves for own shares
- b) Retained earnings
- c) Investments in securities
- d) Prepayments for supplies

### Exercise 1:

On the Internet, find the chart of accounts that is applied in the Republic of Croatia. According to the chart of accounts specify the accounts for the following transactions: Investments in Internet sites, land, equipment, investments in government bonds, escrow account, buyers of services from the EU.

### Solution:

#### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

### Exercise 2:

a) The entrepreneur has invested 50,000 kuna in his giro account. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Giro account	

OWNERSHIP	CAPITAL	AND
LIABILITIES		
Equity capital		

b) The entrepreneur raised HRK 20,000 in cash from the giro account and placed them in the cash register. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Cash register	
Giro account	

c) The owner of the company withdrew part of the invested capital from the company in the amount of HRK 100.000,00. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Giro account	

OWNERSHIP	CAPITAL	AND
LIABILITIES		
Equity capital		

**Solution:**

**Rate the answer:**

- a) correct
- b) incomplete
- c) wrong

## ANNEX

### 1.1.6. a) THE MOMENT OF VAT CALCULATION

1.	Delivery of domestic goods with a fee paid by a taxpayer acting as such	Fee for goods delivered
2.	Acquisition of European Union domestic goods with a fee	Includes all that the acquirer has given or needs to give to the supplier (determined on the basis of the same elements as the tax base for the delivery of the goods)
3.	Delivery of new means of transport	Fee for delivery of new means of transport
4.	Providing domestic services with a fee paid by a taxpayer who acts as such	Compensation for services rendered
5.	The use of goods, which form part of the taxpayer's business assets for his private needs or for the private needs of his employees, if they dispose of them free of charge or use them in general for purposes other than for the purpose of carrying out the activity of the taxpayer and for such goods or parts thereof wholly or partially denied the pretaxation	The cost of these or similar goods, and if that price is unknown, the amount of costs determined at the time of delivery

6.	Use of goods that form part of the taxpayer's business assets for his private needs or private needs of his employees or in general for purposes other than the performance of his activity for which he or she has been wholly or partially denied a taxpayer	Total cost of providing services
7.	Performing a service free of charge by the taxpayer for his private needs, the private needs of his employees, or in general for purposes other than for the purpose of carrying out his business	Total cost of providing services
8.	Import of goods	Customs value determined by regulations
AMOUNT 5%, 13% i 25%		

### 2.1.2. a) BRANCHES OF ACCOUNTING

Accounting is divided into numerous areas of activity- branches. Those regularly overlap and they are often intertwined. However, it is beneficial to distinguish them and learn basic information concerning each area. As Roger Wohlner mentions in *Accounting Basics*, Accounting is divided in the following branches:

#### 1. Financial Accounting

Financial accounting involves recording and classifying business transactions, and preparing and presenting financial statements to be used by internal and external users. Financial accounting is primarily concerned in processing historical data.

#### 2. Management Accounting

Managerial or management accounting emphasizes on the preparation and analysis of accounting information for use by internal users, within a company. Management accounting deals with the needs of the internal users, the management, in preference to strict compliance with Generally Accepted Accounting Principles.

Management accounting involves financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, and other similar areas.



### **3. Auditing**

External Auditing is the analysis of financial statements by an independent party with the purpose of examining the fairness of presentation and compliance with Generally Accepted Accounting Principles. Internal auditing emphasizes on evaluating the adequacy of an organisation's internal control structure by testing segregation of duties, policies and procedures, degrees of authorization, and other controls implemented by management.

### **4. Tax Accounting**

Tax accounting helps to comply with regulations set by tax authorities. It includes tax planning and preparation of tax returns. It additionally entails determination of income tax and various other taxes, tax advisory services, for example finding ways to limit taxes legally, evaluation of the consequences of tax decisions, and other tax-related matters.

### **5. Forensic Accounting**

Forensic accounting involves court and litigation cases, fraud investigation, claims and dispute resolution, and other areas that involve legal matters. This is one of the popular trends in accounting today. Other branches of accounting, relevant also to FDI investors, include:

### **6. Accounting Information Systems**

Accounting information systems (AIS) involves the development, installation, implementation, and monitoring of accounting procedures and systems used in the accounting process. It includes the employment of business forms, accounting personnel direction, and software management.

### **7. Fiduciary Accounting**

Fiduciary accounting involves handling of accounts managed by a person entrusted with the custody and management of property of or for the benefit of another person. Examples of fiduciary accounting include trust accounting, receivership, and estate accounting.

## **b) ACCOUNTING CONCEPTS AND CONVENTIONS**

Furthermore, to fully understand how accounting works one has to know the basic accounting concepts. The following list includes a summary of these accounting concepts. The terms are from the article *Basic accounting concepts* (Bragg S. 2017).

- *Business entity concept*: according to this concept the business and its owners are two different independent entities and their transactions are to be kept separate, for accounting purposes.
- *Accruals concept*. Revenues are recognized when earned, and expenses are recognized when assets are consumed. This concept means that a business may recognize sales, profits and losses in amounts that vary from what would be recognized based on the cash received from customers or when cash is paid to suppliers and employees. Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.
- *Conservatism concept*. Revenues are only recognized when there is a reasonable certainty that they will be realized, whereas expenses are recognized sooner, when

there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements.

- *Consistency concept.* Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, the financial statements prepared in multiple periods can be reliably compared.
- *Going concern concept.* Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
- *Matching concept.* The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later reporting periods, so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.
- *Materiality concept.* Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

### c) ACCOUNTING AS AN INFORMATION SYSTEM

Another key role of Accounting is accounting as an Information System. Accounting Information System (AIS) is “a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies” (Fontinelle A., 2018). In particular, trained accountants work with AIS to ensure the highest level of accuracy in an organisation's financial transactions and recordkeeping and to make financial data easily available to those who need access to it legitimately, all while maintaining statistics and data intact and secure.

#### A. Components of an Accounting Information System

Accounting information systems generally consist of six main parts: people, procedures and instructions, data, software, information technology infrastructure and internal controls.

#### B. Types an Accounting Information System

There are multiple types or categories of accounting information systems. What a business firm uses depends on the type of business, the size of the business, and the needs and scope of the business.

### 3.1.4. a) ACCOUNTING PRINCIPLES

In order for the financial statements to serve their purpose, or to give a true and fair view of the company's state of affairs, the accounting principles and assumptions serve as a starting point for the development of accounting standards and policies. Based on the Croatian Accounting Standards of Accounting and the *IAS 1 - Presentation of Financial Statements*, the general principles of financial reporting are:

- Unlimited business hours

- occurrence of events
- significance and compression
- consistency (materiality)
- comparability
- caution
- clearing
- balance continuity - initial balance sheet
- separate measurement of items ([Http://www.osfi.hr/](http://www.osfi.hr/))

- **Unlimited business hours**

This principle is based on the assumption that an entrepreneur operates without limits over time, and that he intends to do business in the foreseeable future, meaning that he does not intend to liquidate, or substantially reduce the scope of his business.

- **Occurrence of events**

The significance of this assumption is that the balance sheet items are recognized when a business event occurs and new cash or equivalent is received. These assumptions are the basis for the preparation of all financial statements, except the cash flow statement 1.3.3. Significance (Materiality)

- **Significance and compression**

Based on this principle, it is necessary to distinguish which position or information is significant, and whether it should be presented separately in the reports, or displayed grouped with other positions. The measure of the item is significant if its disclosure could affect the user making a business decision based on financial statements.

- **Consistency**

This principle requires the accounting policies use recognisable and measureable positions in the financial statements, which are then applied during multiple accounting periods. Otherwise, accounting policies could become instrumental in manipulating the financial statements.

- **Purchase expense**

Based on this principle, products and services can not be worth more than the price they were purchased for. However, it is permissible for an undertaking to use other methods of measuring asset positions for revaluation, for example, when recognizing and measuring the positions of the financial statements.

- **Comparability**

The user of the financial report should be able to compare the report with the reports from the previous period, as well as with other reports.

- **Caution**

This principle implies that asset and income items may be slightly underestimated, and liabilities and expenses slightly overvalued or anticipated, yet anticipating loss. This does not mean that this principle allows the creation of hidden reserves, ie intentional undercutting of assets or revenues or deliberately overestimating liabilities or expense (Decision on publishing the Croatian Financial Reporting Standards, NN, 30/08)

Assets, liabilities, revenues and expenditures should not be abolished unless the requirement is exceeded or the standard allowed. (Decision on Publication of Croatian Financial Reporting Standards, NN, 30/08)

In income and expense items, the payment can only be made if:

- This is required or permitted by the IAS, or
- Supporting information can be found in the financial statements

▪ **Balance continuity - initial balance sheet**

The starting balance for each business year corresponds to the balance sheet of the previous year (Decision on the publication of the Croatian Financial Reporting Standards, NN, 30/08).

▪ **Separate measurement of items**

Items of assets, liabilities and capital are measured separately. (Decision on Publication of Croatian Financial Reporting Standards, NN, 30/08).

## **b) ACCOUNTING BASED ON LEGAL AND PROFESSIONAL STANDARDS**

The organization of accounting in business entities is a complex process, and depends on a number of factors that can be internal or external. Internal factors are different in each business subject and depend on the business involved, the size of entrepreneurs, management and so on.

External factors are accounting regulations, which include the Accounting Act, International Accounting Standards, International Financial Reporting Standards, and in Croatia, the Croatian Financial Reporting Standards. The Croatian Financial Reporting Standards are the accounting principles and rules that applied by the accounting profession, and are used when drafting and presenting the financial statements of the Decision on Disclosure to the Croatian Financial Reporting Standards NN 30/08). Consequently, recording of business changes in accounting records has not been left to the entrepreneurs' discretion, but is regularly regulated by standards.

The Croatian Financial Reporting Standards are the basis for the preparation of the financial statements of small and medium-sized enterprises in Croatia, and are based on International Financial Reporting Standards. The Croatian financial reporting standards are similar to the International Financial Reporting Standards, and are in fact just a simplified version. Since most small and medium-sized entrepreneurs in Croatia find that the International Financial Reporting Standards are overwhelming and too extensive, as the IASB has failed to set standards for SMEs, a Working Group led by prof.dr.sc. Stjepan Tadijancevic, created the Croatian Committee for Financial Reporting Standards. If the solution can not be found in HFSI (Croatian Committee for Financial Reporting standards), it is necessary to check the solution of the accounting records in IFRSs and IASs. Large companies have an obligation to apply the International Financial Reporting Standards, in addition to any businesses whose shares are listed on the stock exchange.

The Croatian Financial Reporting Standards are adopted by the Financial Reporting Standards Committee, which is a nine-member professional body with five-year mandates, nominated by the ministry of Finance, appointed and dismissed by the Government of the Republic of Croatia. ([Http://www.osfi.hr](http://www.osfi.hr))

The Croatian Financial Reporting Standards (HSFI) are as follows:

- HSFI 1 – Financial Reporting
- HSFI 2 – Consolidated financial reporting
- HSFI 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- HSFI 4 - Events after the balance sheet date
- HSFI 5 - Long - term intangible assets
- HSFI 6 - Long - term tangible assets
- HSFI 7 - Real estate investments
- HSFI 8 – Long – term assets intended for sale and termination of operations
- HSFI 9 - Financial assets
- HSFI 10 - Supplies
- HSFI 11 - Demand
- HSFI 12 - Capital
- HSFI 13 - Obligations
- HSFI 14 - Time delimitations
- HSFI 15 - Revenues
- HSFI 16 - Expenses
- HSFI 17 - Agriculture

Large Companies in the Republic of Croatia apply the International Accounting Standards and the International Financial Reporting Standards. The International Financial Reporting Standards (IFRS) are adopted by the International Accounting Standards Board (IASB), as outlined in the IASBs in 2001, as supplemented by the International Financial Reporting Standards (IFRS) (International Financial Reporting Standards, NN, 140/06)

Numbers and Names of International Financial Reporting Standards (MSFI):

- MSFI 1 – First Implementation of International Financial Reporting Standards
- MSFI 2 – Share-based payments
- MSFI 3 – Business connections
- MSFI 4 – Insurance contracts
- MSFI 5 – Long - term assets intended for sale and termination of operations
- MSFI 6 – Exploration and evaluation of mineral resources
- MSFI 7 – Financial Instruments: Disclosures
- MSFI 8 – Business segments
- MSFI 10 – Consolidated financial statements
- MSFI 11 – Joint ventures
- MSFI 12 – Publishing shares in other entities
- MSFI 13 – Measurement of fair value

Numbers and Names of International Accounting Standards (MRS):

- MRS 1 – Presentation of financial statements
- MRS 2 - Supplies
- MRS 7 – Cashflow statements
- MRS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
- MRS 10 - Events after the reporting period
- MRS 11 – Construction contracts
- MRS 12 – Profit tax
- MRS 16 – Real estate, production plants and equipment

MRS 17 - Leasing  
MRS 18 - Revenues  
MRS 19 – Employee income  
MRS 20 - Accounting for State Aid and State Aid  
MRS 21 - The Effects of Currency Exchange Rate Changes  
MRS 23 – Rental Costs  
MRS 24 - Publishing Related Persons  
MRS 26 - Accounting and pension plans reporting  
MRS 27 - Unconsolidated financial statements  
MRS 28 - Shares in affiliated entities and joint ventures  
MRS 29 - Financial reporting in hyperinflationary economies  
MRS 32 - Financial Instruments: Presentation  
MRS 33 - Earnings per share  
MRS 34 - Financial reporting for periods over the year  
MRS 36 – Reduction of assets  
MRS 37 - Provisions, Contingent Liabilities and Contingent Assets  
MRS 38 - Intangible assets  
MRS 39 - Financial Instruments: Recognition and Measurement  
MRS 40 - Real estate investments  
MRS 41 – Agriculture

## **Module 3 - Accounting**

### **Introduction**

Since accounting is considered the basis of business decision-making, not only for investment advisors, but also for investors themselves, it is desirable to know the basic institutes within accounting that, sometimes, can be crucial for making a decision on investment. In practice and theory, we encounter multiple definitions of accounting, some of the definitions are as follows: Accounting is a set of theories, concepts and techniques by which financial data is processed into information for the purpose of reporting, planning, supervising and decision making. This definition reflects the achievements of theoretical knowledge and good accounting practice of today. The following definition expresses the focus of accounting on information: The accounting system can be defined as a set of tasks within entities that process certain transactions based on financial records. Such a system should be recognized, calculated, classified, published, summarized and reported on these transactions. Both definitions have the following in common: the subject of data collection are business transactions, the proven data is entered in the financial records, data entered into the business books is calculated and accordingly classified, based on the processed data the financial and accounting reports are compiled, the reports carry the intended information to the investors, members of the management board and others, managers, lenders, suppliers, customers, the government and its agencies and the public.

### **Glossary**

**Account** - a document issued by the seller to the buyer for the products sold or services rendered. The account proves the execution of a job.

**Accounting** - means a function in an organization or a company that records, analyzes, interprets business events and financial information products. Accounting can be divided into accounting, financial accounting and management accounting.

**Accounting Policies** - present rules and procedures adopted by an entrepreneur or management to prepare financial statements.

**Accounting Principles** - marks the initial principles that show business events as defined by accounting theory.

**Annual report** - is a report which the owners present to the management of the bank or the company. This report describes the business in the past year and provides plans for further development. The annual report is presented and accepted at the annual assembly of the founders.

**Balance sheet** is one of the fundamental financial statements showing the volume and structure of the assets, equity and liabilities of the enterprise on a specific day.

**Cash flow** - denotes the cash flow in the business of the company.

**Cash register** - indicates a place in a company where cash and securities transactions are performed.

**Claim** - means the relationship between buyers and sellers in which the seller is seeking debt settlement for the goods or services sold.

**Costs** - are the estimated consumption of production factors necessary for the production and sale of business performance and for the preservation of enterprises. We distinguish them according to different criteria.

**Currency** - is paper and coins issued by a state or a bank, in circulation serves as a means of exchange and a legal means of payment. Each country usually has its own currency. Payments between countries are made in currencies at a particular exchange rate. Currency exchange rates depend on the demand and offer of the respective currencies.

**Custom tax** is a tax on imports, and less on exports of goods; the amount of money that the state charges from the owner of the goods when it crosses the border. They are usually ad valorem, ie in percentage of the value of the goods, but they may also be specific (in a given amount per unit of weight or volume) and combined.

**Customer** - an entity that buys goods or services from third parties.

**Debt** - means the amount of money that the debtor has to settle.

**Depreciation** is a way of calculating. Depreciation is a gradual decrease in the value of an enterprise's assets, and is calculated annually under the law according to procedures.

**Dividend** - a portion of the company's profits paid to shareholders. The amount of dividends is determined by the shareholders' meeting. Usually, the dividend level is determined in percentage of the share value.

**Economic flow** - display all receipts, expenditures and their differences; makes the basis for calculating profitability and application of dynamic methods of evaluation of the investment project. This is the broader concept of cash flow. Receipts in the economic flow are not only revenue from the sale of effects but also the rest of the value of the project. Expenditures in the economic course are: investments and other expenditures related to investments, operating expenses without depreciation, special issues for the social standard, taxes on profit and allocation for reserves. Net income in the economic flow is defined as the difference between income and expenditures.

**Expenditure** - is contrary to income, denotes money and commodity payments for liabilities incurred. These are all types of costs caused by the business of legal and physical entities. The term expense appears primarily in bookkeeping as a component of the opposing income within the balance sheet of success. Given the purpose, expenditures are divided into business, finance and other expenditures. Business or regular expenses include costs arising from the acquisition of regular income, or caused by the basic activity of entities that it inevitably doesn't generate income.

**Goods** - a product of human labor intended for sale.



**Gross Balance** - means recapitulative cumulative overview of the main book account turnover.

**Gross Profit** is derived in size that reflects the success of the business. It is obtained as the difference between all income and all expenditures for a certain period of time.

**Income Statement** - shows revenue and expenses on a particular day.

**Income tax** - Income tax is paid on the tax base at rates of 24% and 36%. Craft income as determined by business books is the difference between operating income and operating expenses incurred during the same tax period.

**Liabilities** - includes the own capital of the insurer, technical reserves, other reserves that contain provisions for the pensions of the insurer's employees and similar long-term and short-term liabilities and accrual items.

**Long-term assets** - are all assets that permanently serve the business process in a company and are cashable over a period of one year. The purpose of this form of property is not resale.

**Long-term liabilities** - those liabilities of companies whose payment period is longer than one year. They are in the passive balance sheet.

**Loss** - represents the negative business result of a company realized in a certain period of the year. Company expenses are higher than revenues.

**Notes** of the underlying financial statements are to enhance the preparation and supplementation of the balance sheet, profit and loss account, cash flow statement and statement of changes in equity.

**Price** - is a monetary expression of the value of a commodity formed under the mutual influence of supply and demand of that commodity on the market. The basic factors affecting the price formation are related to the offer, supply, needs and purchasing power of the consumer. Generally, marketing is considered to be a means, instrument, not the ultimate goal.

**Principal** –

4. the net amount of property belonging to the trader by deducting debts;
5. in the narrower sense, the sum of money that was initially invested in the business, but also the amount available for subsequent operations;
6. It differs from core capital.

**Profit** - denotes the difference between invested assets and the cost of business activity.

**Profit tax** - denotes a tax on the work of legal entities. Income tax is generated as a difference in income and expense. In Croatia, the income tax is 12% and 18%.

**Profitability** - ratio of realized profit and invested funds.

**Pure cash flow** is the difference between cash receipts and cash outflows over a given period. The key category of financial access. Cash receipts are the money that a company receives from its environment and increase its cash flow. These include primarily the collection of customer receivables for realized products and services, as well as the receipt of interest payments, profits from other companies, claims for damages, etc.

**Retained earnings** - Retained earnings is a part of the company's equity principal, which was created by accumulating - retaining part of the realized profit from the previous accounting periods. It is in the balance sheet and shows the value of the equity of ordinary shareholders.

**Risk** - possibility of material and / or non-material loss. The concept of risk in a broader sense also means the notion of danger. In insurance, the concept of risk implies a secured risk of certain possible hazards, fire, accidents, etc.

**Salary** - is a fee for work done. It is paid to employees on the basis of an employment contract signed by the director on behalf of the company with an employee. Salary is paid monthly as an advance of annual remuneration for work. At the end of the business year, a final salary calculation for each employee is done.

**Sales** - represents a change in the ownership of goods between the seller and the buyer.

**Statement of Income Balance** - Profit and Loss Account.

**Supplier** - is a business partner that supplies goods or services to a company.

**Tax** - means a portion of the revenue that the state takes to legal and natural persons to cover their expenditures, and in return, in return, does not make any compensation. These are not only the sources of financing of expenditures caused by the functioning of the state and administrative apparatus, but also the instruments of economic and social policy. Benefits of taxpayers from paid taxes are mostly direct. With regard to the subject of taxation, the tax differs from turnover, income, profit, total income of citizens.

**Tax on real estate transactions** - means the type of tax on old real estate which in Croatia is 4%.

**Tax Rebate** - any reduction that impairs the tax base of the tax base. They are determined before determining the tax liability of the taxpayer. Types and forms of tax relief, as well as the manner of their application, are prescribed by the legislator.

**Total Cash Flow** - is the origin of money by separately observing cash flows from operating activities, cash flow from investment or investment activities, and cash flows from financial activities.

**Total revenue** - represents all income of the enterprise.

**Value added tax** is a form of sales tax, the realization of which is divided into partial payments made on the basis of value added at each stage of the production and distribution process. VAT is calculated and paid successively, at each sale, but only to the net value realized at each stage. Exports are made without this tax, and imports are burdened with the

same rates as the national product. It can therefore be unique, but also differentiated into different types of goods or services.

## 1. Calculating and reporting different taxes



### 1.1. Overview / theoretical framework

In this section, acquaint with the theoretical framework of the tax system in the Republic of Croatia, and the way of calculating and reporting different taxes.

After reading this unit, you will be able to:

- become familiar with the concepts of Profit Tax, Income Tax and Value Added Tax.
- get to know the foundation institutes of the taxation system of the Republic of Croatia.

#### 1.1.1. Introduction

Accounting tracks the business process and takes place in compliance with accounting standards by applying the legal regulations of a particular country. Below you will find more details on the issues of certain tax regulations in the Republic of Croatia and their application in the system of accounting of entrepreneurs, through the following parts:

- the fundamental features of the Croatian tax system
- profit tax
- income tax
- transfer of taxpayers to income tax inside the profit tax system
- value added tax

### **1.1.2. The fundamental features of the tax system of the Republic of Croatia**

The Croatian tax system is based on a system of direct and indirect taxation. Direct taxes are the income of the state that an individual pays personally or for which the employer has paid. Taxes are calculated as a certain percentage of the realized income or assets, and in Croatia there are profit tax, income tax and surtax on income tax. Indirect taxes are those taxes where the tax burden of taxpayers through the price of a product or service is borne by the end user, and in Croatia there is value added tax, excise and real estate tax.

Taxes represent the revenue of the budget and are settled for the purpose of settling the public expenditure envisaged by the budget. Pursuant to the Constitution of the Republic of Croatia, it is the obligation of each individual to participate in settling public expenditure in accordance with their own economic capacity. The general tax law categorizes public duties on taxes and other public revenues that include duties, fees, contributions, concession fees, fines for tax misdemeanors, and all allowances, the determination, collection and / or supervision of which fall under special regulations, and within the remit of the tax authority.

### **1.1.3. Profit tax**

The Profit Tax Act and the Profit Tax Ordinance are the underlying regulations governing the issue of profit tax. From the balance sheet perspective, profits represent the difference between equity before taxation at the end and at the beginning of the period. Likewise, profit can also be defined from the perspective of profit and loss of an account, as the positive difference between realized income and expenses in the accounting period.

Profit tax is a tax on a base that is the difference between income and expenses. In English, terminology is called corporate / corporation income tax. The difference in income and expenses or gain realized in the accounting period is the basis of profit tax. The taxpayer is: a taxpaying company or other legal and natural person residing in the Republic of Croatia who carries out the economic activity on an autonomous and permanent basis and for the purpose of obtaining profit, income or revenue or other economic/assessable benefits.

Profit tax is payable:

1. 12% if income tax amounted to 30.000.000,00 HRK in the tax period, or
2. 18% if income realized in the tax period is equal to or greater than 3,000,000.01 HRK.

From the tax perspective, profit before tax is the tax base increased for previously non-deductible expenses and reduced for deductions and relief, in accordance with the provisions of the Profit Tax Act. Thus, between the accounting results of the financial results from the point of view of tax regulations, which is the tax base, there are some differences that are reflected in revenues and expenditures, and may have the characteristics of permanent and temporary differences. An entrepreneur who is in the system of profit tax is obliged to manage his business books and to compile reports in accordance with the regulations on accounting of entrepreneurs, which implies the application of the principle of dual bookkeeping. The tax period is usually a calendar year, although at the request of a taxpayer another tax period of up to 12 months can be determined. Income tax is determined at the rate of 18% on the tax base, which is the accounting profit determined on the basis of data from the business books of the trading company and the financial statements prepared in

accordance with the accounting regulations, corrected for the prescribed deductions and increases.

Permanent differences in expenditures arise from accounting expense that is permanently tax-deductible and thus increases the accounting profit or tax base. Permanent differences from the point of view of revenue are most often the result of incorporating into income amounts already taxed, such as dividends and profit share. A taxpayer is obliged to provide all necessary information on income and expenditure with permanent differences in accounting. Temporary differences, on the other hand, arise in one or more periods and are abolished in one or more periods. In this case, the tax effects of temporary differences are recognized as an item of property - deferred tax assets, or as a liability item - deferred tax liabilities.

Pursuant to the provisions of the Law, the taxpayer is a company or other legal and natural person who carries out the economic activity independently and permanently for the purpose of gaining benefits, and is a resident of Croatia, as well as a domestic business unit of a foreign enterprise.

#### **1.1.4. Income tax**

A taxpayer is a trade that earns income from self-employment. If more than one physical person jointly generates income, the taxpayer calculates separately for each person's share of the common income. Income from business, as determined by business books, is the difference between business receipts and business expenses arising in the same tax period. Receipts and expenditures are determined according to their market value, according to the principle of cash receipts - receipts are determined after payments received and after expenditure payments have been made. The trade shall submit the application to the taxpayer's register at the competent tax authority at the place of his / her residence or habitual residence within 8 days from the beginning and the end of the activity.

The Monthly Income Tax Advance is determined by the Tax Administration by a decision. A craftsman who starts working independently does not pay advances of income tax until the first annual tax return has been filed. The taxable income tax base makes income from trades reduced by the transferred loss and personal deduction. Income tax is paid on the tax base at rates of 24% and 36%.

The craftsman can use various incentives and deductions - employment incentives, state support for education and training, research and development incentives and tax incentives for performing activities in assisted areas and the area of the City of Vukovar.

#### **1.1.5. Flat-rate taxation of trades**

A taxpayer is a trade which earns income from the self-employed activity of the trade, in accordance with the craftsmanship regulations, and which meets all of these conditions:

1. The total income in the previous year is not higher than HRK 300,000.00, with the mentioned limit of HRK 300,000.00 related to the amount of receipts that the payer can earn in 2017.
2. If the trade's earnings are below HRK 300,000.00, they are excluded from VAT.

A trade that begins to carry out a self-employed activity can choose how the income tax will be paid, and is obliged to report at the beginning of the activity to the competent tax administration office according to his residence or habitual residence within 8 days from the beginning of self-employment. A trade that carries out self-employment and income is determined on the basis of business books, and opts to pay the flat-rate for tax, is obliged to submit a report to the authorized tax office of the Tax Administration by the end of the current year for the following year and not later than 15 days after the expiration of the current calendar year.

The annual flat-rate income is determined by a decision of the competent tax administration office according to the place of residence or habitual residence of the taxpayer, and is in effect until a new decision is made. By applying a tax rate of 12% to the annual income, which is also the annual tax base for determining the annual flat-rate, the annual flat-rate income tax is determined. The monthly flat-rate income tax is determined by dividing the flat-rate sum of the income tax into twelve months, or a number comparable with the months of the taxation period in which the taxpayer carries out an independent activity.

### **1.1.6. Value Added Tax**

Value Added Tax is a modern form of taxation which has been in effect in Croatia since 1 January 1998 and regulated by the Value Added Tax Act and the Regulations on the Value Added Tax Act. By virtue of its economic impact, the value added tax is a tax on general consumption and is included in the turnover tax group. Value added tax represents a surplus sales tax that is calculated at each stage of the production and sales cycle, only to the added value created at a particular stage. The added value is actually the difference between the value of selling of the produced goods and services, and the value of purchasing goods and services. Thus, value added is the value that the manufacturer adds to the inputs purchased to sell them later.

Value added tax is therefore taxed by the difference between the selling price and the purchasing value of the goods. For taxpayers who are in the VAT system, this tax is neutral, since the tax paid for the purchase is recognized as a deduction of the tax liability, while on the other hand, the difference in VAT is borne by the buyer, whereby the final buyer submits the entire tax burden.

Pretax represents the amount of tax that is in the supplier's account and is paid to the supplier. However, this amount of tax also represents a tax liability towards the country of the supplier, while for the recipient of the invoice, although increasing its debt to the supplier and represents a financial expense, it is actually the amount shown as an advance paid to the state. This means that in the billing period, the tax deduction decreases the VAT liability on the invoices issued for the delivered goods or services. VAT on input accounts is not included in the purchase value of the goods because it does not represent the cost of the purchase, but reduces the obligation for VAT in the accounting period, therefore this amount is allocated and specifically recorded as a tax on the entrepreneur in the VAT system. In this case, the final buyer pays the full sale price, including VAT.

The Taxpayer of VAT is:

1. Any person who independently carries out any economic activity, irrespective of the purpose and performance of that activity.
2. Any person who occasionally delivers a new means of transport.
3. In the territory of the Republic of Croatia, a taxpayer who does not have a head office, a business unit, a permanent residence or a habitual residence, and performs domestic deliveries of goods or services where place of taxation in the Republic of Croatia. Taxpayers with head offices in the European Union may appoint a tax representative in the Republic of Croatia, while taxpayers with head offices outside the European Union must appoint a tax representative as a person who is required to pay VAT.
4. State authorities, state administration bodies, bodies and units of local and regional self-government, chambers and other bodies with public authority, if they carry out economic or other activities, as the non-taxation of these activities would lead to significant distortion of market competition.

	1.	Delivery of domestic goods with a fee paid by a taxpayer acting as such	Fee for goods delivered
	2.	Acquisition of European Union domestic goods with a fee	Includes all that the acquirer has given or needs to give to the supplier
	3.	Delivery of new means of transport	Fee for delivery of new means of transport
	4.	Providing domestic services with a fee paid by a taxpayer who acts as such	Compensation for services rendered
	5.	The use of goods, which form part of the taxpayer's business assets for his private needs or for the private needs of his employees, if they dispose of them free of charge or use them in general for purposes other than for the purpose of carrying out the activity of the taxpayer and for such goods or parts thereof wholly or partially denied the pretaxation	The cost of these or similar goods, and if that price is unknown, the amount of costs determined at the time of delivery
	6.	Use of goods that form part of the taxpayer's business assets for his private needs or private needs of his employees or in general for purposes other than the performance of his activity for which he or she has been wholly or partially denied a taxpayer	Total cost of providing services
	7.	Performing a service free of charge by the taxpayer for his private needs, the private needs of his employees, or in general for purposes other than for the purpose of carrying out his business	Total cost of providing services
	8.	Import of goods	Customs value determined by customs regulations
AMOUNT			5%, 13% i 25%

## 1.2. Important / exceptions

For taxpayers to enter or exit the VAT system, as of January 1, 2018, a new threshold for the value of delivering goods and / or services performed in the previous year, ie in 2017, has been applied. Entering or exiting the VAT system depends on whether the amount earned is greater or lesser than 300,000.00 kn.

In accordance with Art. 90, paragraph 5 of the Law on Value Added Tax, to enter the VAT system and to determine imported goods, 5, 13 and 25% of the taxable turnover is deducted from VAT, whereas the value of deliveries are exempted from VAT. It is about exemptions for exports, the provision of services on movable property, in connection with international transport, for certain deliveries that are related with export - diplomatic and consular missions etc. for certain mediation services. Transactions included in Art. 40th pt 1, a) - g) of the Law on VAT and real estate transactions, unless these transactions are ancillary. Taxes on tangible and intangible assets of a taxpayer are not taken into account.



The taxpayer should enter the VAT system "by force of law" if they made taxable deliveries of goods and services in excess of HRK 300,000.00 in the previous year, irrespective of whether it was so charged, and regardless of whether they have been operating for a whole year or just for a few months. Furthermore, when exiting from the VAT system, taxpayers should take care of the tax consequences, primarily the obligation to correct the purchase of purchased economic goods in the previous tax periods for which they used pre-taxation.

Please note that the threshold of HRK 300,000.00 applies to trade firms who do not need to start running business books if in the course of 2017 they exceed the delivery threshold - receipts over 300,000, 00 kn, not of 230,000,00 kn.

Income calculations in a company are carried out in accounting, therefore it is necessary to know the characteristics of different categories of income, the methods of calculation and the obligations of the entrepreneur towards the recipient of income and the state. Depending on the city or municipality where the entrepreneur has his or her habitual residence, there are different prescribed rates, and it is therefore desirable to check which tax rate is applicable to each company.

### **1.3. Tips from professionals**

When talking about investments, it is essential to know the tax benefits related to the Profit Tax. Considering the number of tax reliefs, it is well known that the relevant provisions of the Income Tax Act are in place.

### **1.4. Additional reading (more information and useful links)**

- <https://www.rrif.hr/index.php>

On the proposed website, you can find basic information about the accounting system of the Republic of Croatia, as well as examples of calculating tax obligations.

## 1.5. Quiz and Exercise

### Quiz

1) Who is not a taxpayer of VAT in Croatia?

- c) Any person who independently carries out any economic activity, irrespective of the purpose and performance of that activity.
- d) Any person who at least 50% of time has a permanent residence or a habitual resident in the Republic of Croatia.
- e) In the territory of the Republic of Croatia, a taxpayer who does not have a head office, a business unit, a permanent residence or a habitual residence, and performs domestic deliveries of goods or services where place of taxation in the Republic of Croatia.
- f) State authorities, state administration bodies, bodies and units of local and regional self-government, chambers and other bodies with public authority, if they carry out economic or other activities, as the non-taxation of these activities would lead to significant distortion of market competition.

2) What are applicable VAT rates in Republic of Croatia?

- g) 12%, 25%
- h) 5%, 13% i 25%
- i) 10%, 13% i 22%
- j) 5%, 12%, 25%

### Exercise:

In the Law on Value Added Tax, please find on what kind of objects does lower VAT rates applies?

Solution:

### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

## **2. Basics of accounting**

### **2.1. Overview / Theoretical framework**

This unit is designed to introduce Accounting to you. You will be familiarise with some important basic accounting terms, accounting standards and accounting concepts.

After reading this unit, you will be able to:

- Understand the meaning of accounting.
- Differentiate between various concepts of accounting.
- Analyze the importance of accounting.

#### **2.1.1. Introduction**

Accounting is a framework that measures business activities, forms data and information into reports and makes that information accessible to decision-makers. The reports, which impart this information about the performance of an association in fiscal and financial terms, are called financial statements. Commonly, accounting is called the Language of Business. Be that as it may, a business may have a considerable number of aspects which may not be of monetary nature. In that capacity, a better method to comprehend accounting could be to call it *The Language of Financial Decisions*. Numerous parts of our lives depend on accounting: personal financial issues, investments, tax, loans, and so forth. However, we shall limit our scope of discussion to a business organisation and more specifically, to the investments of an organisation or an individual. For that purpose, we need to understand the meaning, main objectives, and limitations of accounting.

#### **2.1.2. Meaning of Accounting**

Accounting is usually defined as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information" (American Accounting Association, 1977). This information has a primarily financial function. Therefore, Accounting is communication system used to document the activities of earnings – for business companies and not-for-profit institutions. Accounting provides information that allows for detailed and efficient judgments and decisions by the end-users of the information. The process of accounting offers these essential financial data to a wide range of individuals whose objectives for studying the data may vary widely. For example, bank officers may need a company's financial statements and data to evaluate the ability of the company to pay a loan. In addition, interested investors may want to compare financial data from different companies to help them decide which company represents the best investment. Also, the management of a company can receive and study important accounting data to make informed decisions. It is essential for a decision maker to have reliable and comprehensive information before they can make a decision and invest money and resources into something.

More specifically, accounting information is extremely valuable for prospective investors because they can use it to evaluate the financial impact of different alternatives. In this way,

they can monitor and reduce the risks involved in investment through using the judgment of professionals and experts to quantify the future financial consequences of taking an action or delaying an action.

Finally, it is commonly observed for accounting to be often confused with bookkeeping. Bookkeeping is defined as “a mechanical process that records the routine economic activities of a business”. As it is widely accepted, accounting consists of bookkeeping; however, it also goes well beyond bookkeeping in scope. Accountants examine and interpret economic and financial information, prepare statements, audits, develop and design accounting systems, prepare financial studies, forecasts and budgets and provide a plethora of other services.

The **key objectives** of accounting can be summarized as follows.

- Recording

The most basic role of accounting is to record and summarize business transactions and balances. This process is often referred to as “bookkeeping” and is fundamental in managing any financial ventures and investments.

This kind of information is not only useful for the managers of a business- (to keep track of the financial health and performance of a business) but is also important for prospective investors and other stakeholders.

- Planning

Organizations and individuals need to plan how they will allocate their limited resources so that they can reach the competitive demands of the future. An effective manner of doing so is through the use of various forms of budgets.

Budgeting is a prime component of managerial accounting. Budgets permit organizations and individuals to plan for the future by anticipating future needs and resources.

- Decision-Making

Accounting’s other important role is to provide information and analysis for decision-making and control. Accounting provides a basis for evaluation of the overall performance over a time period which promotes accountability.



Figure 1: Key objectives of Accounting

### **2.1.3. Branches of Accounting**

Accounting is divided into numerous areas of activity- branches. Those regularly overlap and they are often intertwined. However, it is beneficial to distinguish them and learn basic information concerning each area. As Roger Wohlner mentions in *Accounting Basics*, Accounting is divided in the following branches:

#### **1. Financial Accounting**

Financial accounting involves recording and classifying business transactions, and preparing and presenting financial statements to be used by internal and external users. Financial accounting is primarily concerned in processing historical data.

#### **2. Management Accounting**

Managerial or management accounting emphasizes on the preparation and analysis of accounting information for use by internal users, within a company. Management accounting deals with the needs of the internal users, the management, in preference to strict compliance with Generally Accepted Accounting Principles.

Management accounting involves financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, and other similar areas.

#### **3. Auditing**

External Auditing is the analysis of financial statements by an independent party with the purpose of examining the fairness of presentation and compliance with Generally Accepted Accounting Principles. Internal auditing emphasizes on evaluating the adequacy of an organisation's internal control structure by testing segregation of duties, policies and procedures, degrees of authorization, and other controls implemented by management.

#### **4. Tax Accounting**

Tax accounting helps to comply with regulations set by tax authorities. It includes tax planning and preparation of tax returns. It additionally entails determination of income tax and various other taxes, tax advisory services, for example finding ways to limit taxes legally, evaluation of the consequences of tax decisions, and other tax-related matters.

#### **5. Forensic Accounting**

Forensic accounting involves court and litigation cases, fraud investigation, claims and dispute resolution, and other areas that involve legal matters. This is one of the popular trends in accounting today. Other branches of accounting, relevant also to FDI investors, include:

#### **6. Accounting Information Systems**

Accounting information systems involves the development, installation, implementation, and monitoring of accounting procedures and systems used in the accounting process. It includes the employment of business forms, accounting personnel direction, and software management.

#### **7. Fiduciary Accounting**

Fiduciary accounting involves handling of accounts managed by a person entrusted with the custody and management of property of or for the benefit of another person. Examples of fiduciary accounting include trust accounting, receivership, and estate accounting.

#### **2.1.4. Accounting Concepts and Conventions**

Furthermore, to fully understand how accounting works one has to know the basic accounting concepts. The following list includes a summary of these accounting concepts. The terms are from the article *Basic accounting concepts*.

- *Business entity concept*: according to this concept the business and its owners are two different independent entities and their transactions are to be kept separate, for accounting purposes.
- *Accruals concept*. Revenues are recognized when earned, and expenses are recognized when assets are consumed. This concept means that a business may recognize sales, profits and losses in amounts that vary from what would be recognized based on the cash received from customers or when cash is paid to suppliers and employees. Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.
- *Conservatism concept*. Revenues are only recognized when there is a reasonable certainty that they will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements.
- *Consistency concept*. Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, the financial statements prepared in multiple periods can be reliably compared.
- *Going concern concept*. Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
- *Matching concept*. The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later reporting periods, so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.
- *Materiality concept*. Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

#### **2.2. Important / exceptions**

##### **I. Limitations of accounting**

Regardless of accounting's huge advantages, there are limitations of accounting that every accountant, advisor, businessperson and student must be aware of. The main limitations of accountancy and financial statements fall into the following categories:

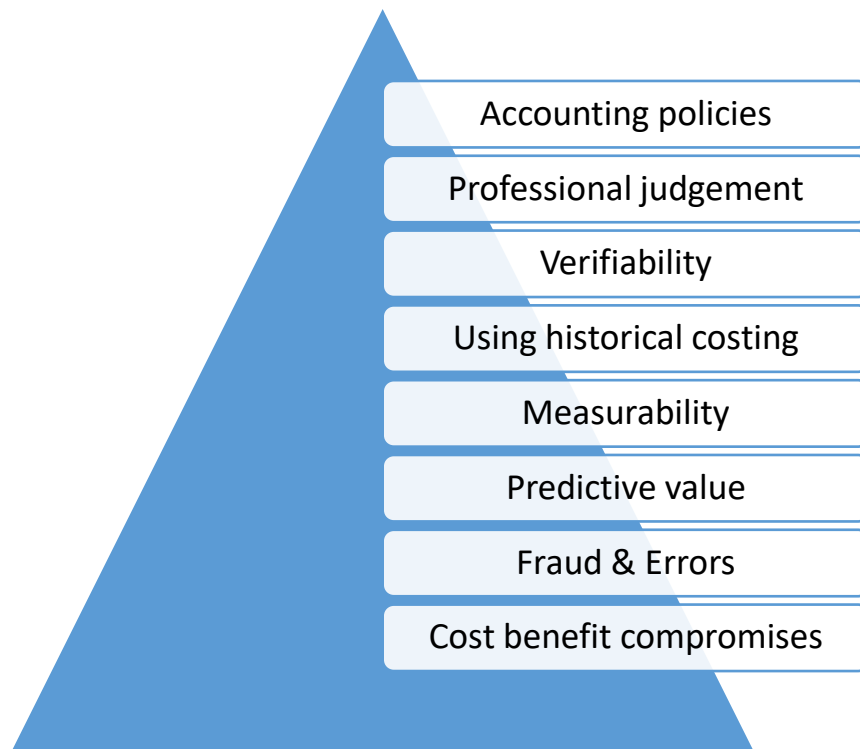


Figure 2: Limitations of Accounting

9. Accounting policies: often accounting policies vary from country to country as there is no global standard and this creates confusion.
10. Professional judgement: professional judgement is common when applying accounting policies. Because it is subjective, the interpretation of the accounting standards and application will create differences in the judgement.
11. Verifiability: an audit can provide reasonable but not undeniable guarantees of the accuracy of financial statements.
12. Using historical costing: using the method of historical cost to measure assets does not manage to account the changes in values over time. This again leads to the trap of making accounting information subjective, as the assets may not have the same value today.
13. Measurability: financial statements cannot estimate resources that don't have a monetary value. Consequently, these resources will not be assigned a reasonable value.
14. Predictive value: as financial statements present the accounting picture of a company in a past period, there is often limited insight into prospects and lacks predictive value that is essential for investors.
15. Fraud & Errors: to err is human; usually, there is always room for errors and/or fraud in financial statements. This can ultimately undermine the credibility and reliability of the statements and all information.
16. Cost benefit compromises: the quality of accounting information can be compromised due to the cost of producing reliable information.

## II. Accounting as an information system

Another key role of Accounting is accounting as an Information System. Accounting Information System is “a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers, auditors and regulatory and tax agencies”. In particular, trained accountants work with AIS to ensure the highest level of accuracy in an organisation's financial transactions and recordkeeping and to make financial data easily available to those who need access to it legitimately, all while maintaining statistics and data intact and secure.

### A. Components of an Accounting Information System

Accounting information systems generally consist of six main parts: people, procedures and instructions, data, software, information technology infrastructure and internal controls.

### B. Types an Accounting Information System

There are multiple types or categories of accounting information systems. What a business firm uses depends on the type of business, the size of the business, and the needs and scope of the business.

## 2.3. Tips from professionals

One of the most common challenges that Accountants nowadays face are the rapid technology changes that have a considerable effect on the sector.

As David Emmerman, CPA and Xero Ambassador, said “accountants need to adapt to the new technology that’s coming out there and not be afraid and move forward with everything, [Accountants need to] look at better processes that our clients can really embrace and will allow them to be more successful, which in turn, allows us to be more successful.”

You can find the interview here: <https://youtu.be/MDP75xqvzlg>





## 2.4. Additional reading (more information and useful links)

You can read more about basic accounting theory, concepts, principles and branches in the following material:

American Accounting Association (1977). *A statement of basic accounting theory*. Sarasota: Evanston, III.

Bragg S. (2017). Basic accounting concepts. Available on: <https://www.accountingtools.com/articles/basic-accounting-concepts.html> (22.02.2018).

Edwards J.D., Hermanson R. H., Buxton B. (2011). *Accounting Principles: A Business Perspective, Financial Accounting (Chapters 1 – 8): An Open College Textbook*. Available on: <https://www.saylor.org/site/wp-content/uploads/2011/11/BUS103-TEXTBOOK.pdf> (20.02.2018).

Fontinelle A. (2018). Introduction To Accounting Information Systems. Available on: <https://www.investopedia.com/articles/professionaleducation/11/accounting-information-systems.asp#ixzz57Geo9dKM> (20.02.2018).

Wohlner R. *Accounting Basics: Branches of Accounting*. Available on: <https://www.investopedia.com/university/accounting/accounting2.asp#ixzz57GMII FpM> (20.02.2018).

Xerocon SF 2016 Interviews and Highlights. (2016, August 17). Available on: <https://www.accountingweb.com/hub/xerocon-sf-2016-interviews-and-highlights> (20.02.2018).

## 2.5. Quiz and Exercise

### Quiz

4. Which one is not a key objective of Accounting?
  - e) Recording
  - f) Decision-Making
  - g) Planning
  - h) Presenting
  
5. What is considered one of the main branches of Accounting?
  - e) Financial Accounting
  - f) Accounting for FDI
  - g) Business Accounting
  - h) Basic Accounting
  
6. Which is not a main limitation of Accounting?
  - e) Professional judgement
  - f) Verifiability
  - g) Fraud & Errors
  - h) Financial transactions

### Exercise

Accounting Information System is “a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers, auditors and regulatory and tax agencies”. **After reading this unit, note down how and in which ways Accounting can support FDI Advisors?**

**Solution:**

### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

### **3. Basics of bookkeeping, bookkeeping rules**



#### **3.1. Overview / theoretical framework**

Bookkeeping is the most important part of accountancy, it is orientated in the past, and only records business events. Bookkeeping is a business function whose task it is to track business changes in business operations that reflect the assets, liabilities, capital, revenues and costs of each business entity. Recording business changes are based on business documentation, ie a set of documents that follow a certain business change to determine how certain changes have occurred. The aforementioned documents contain all the information that is required for the Bookkeeper to work successfully, and monitor the business changes. Bookkeeping is a demanding task that does not suffer superficiality and improvisation.

After reading this unit, you will be able to:

- understand the basics of bookkeeping and bookkeeping rules
- realise the differences between accountancy and bookkeeping
- learn what is an Account plan

##### **3.1.1. Introduction**

Bookkeeping is part of accountancy in which records of business events are recorded in business books using the dual bookkeeping method. In double-entry bookkeeping, business changes are reported that lead to an increase or decrease in assets, liabilities or capital. It is important to note that a business change has to be recorded and must be worth value. The principle of double-entry book-keeping is based on the fact that any business change leads at the same time to an increase in an asset item while simultaneously reducing another asset, liability item or capital.

##### **3.1.2. Differences between accountancy and bookkeeping**

Bookkeeping is the daily entry of business changes into the accounting system, ie the recording and classification of routine transactions, while the accountant must have a wider range of knowledge and skills.

Accountants must understand financial reporting, many regulations, in particular income tax rules, value added tax, accounting standards, and be able to present all types of accounting information to managers, present financial statements and offer alternative solutions that would improve and optimize business operations.

Accounting can be defined as the most important source of information about the company, ie a comprehensive system of records in which plans, records, controls and analyzes of the assets and operations of the Company can be performed, and on that basis, compiles the accountancy and financial statements.

Accounting is the skill of recording, classifying and shortening the presentation in the cash units of expressed business transactions, and interpreting the results.

Accounting is a service function that collects, processes and presents accounting information about business operations and interesting users.

### 3.1.3. Account plan

The Account Plan appeared in accountancy for the first time at the end of the 19th century, while its more significant application began in the fifties of the last century. The Account Plan is an instrument by which the main book items are sorted in such a way that the user can easily and organizedly read what is recorded in the business owner's main book. This is achieved in such a way that each group of items in the balance sheet carries its own broader range according to the previously established accounting plan. The way entrepreneurs make a computational plan is different in some countries. Hence, the obligation to apply a computational plan may be regulated in the sense that:



- it is recommended to apply a Account Plan
- elaborating on the content of an account plan an entrepreneur, and the state establishes an accounting framework
- the state prescribes the content of the account plan for which the required obligations have been prescribed

In Croatia, pursuant to the Accounting Act of January 1, 2017, the obligatory contents of the Account Plan have been determined. The unique framework plan covers the classes and accounts and synthetic accounts that are applied for the purpose of recording bookkeeping

changes, including their numeric and lowercase and off-balance sheet accounts, all of which must be allocated in accordance with the requirements applicable to the preparation of the financial statements.

The business plan's contingency plan must be drawn up to provide data for separate and consolidated financial statements and must comply with the prescribed framework plan. The entrepreneur may, if necessary, extend the outline plan during the business year. If the account list does not change with the first day of the new reporting period, the entrepreneur may continue to use the contingency plan he applied in the previous reporting period.

### **3.1.4. Account Schedule in Accounting Plan**

The principles that are the basis of the classifications of the account plan, as well as their positions in the balance sheet, the profit and losses of the account, and other financial statements.

The basic classification of positions are:

- Assets
- Capital and liabilities
- Expenses
- Income
- The result of the current period

In Croatia, as of 1 January 2017, a computational plan will be applied in the principle of classification of accounts, according to the functional principle of the allocation of positions. In practice, the following principles still apply:

- Balance sheet
- Combined

Functional Principle - The concept of this principle is to input positions according to their movement in position conversions.

Developing Account Schedules according to the Functional Principle below:

CLASS 0 - long-term assets, receivables for registered and unpaid capital

CLASS 1 - money, short-term receivables, short-term financial assets, costs for the future period and accrued income

CLASS 2 - short-term liabilities, deferred payment of expenses and income for the upcoming period

CLASS 3 - stock of raw materials and materials, spare parts and small inventory

CLASS 4 - business expenses

CLASS 5 - internal calculation (free development)

CLASS 6 - current production stocks, goods, merchandise, biological assets and non-current assets available for sale

CLASS 7 - expenditures and revenues

CLASS 8 - business results

CLASS 9 - equity and reserves, long-term provisions, long-term liabilities and off-balance sheet items

*Balancing principle* - the characteristic of this principle is the account plan in which positions are classified in the balance sheet and in the income statement. This means first entering the

accounts of the assets and then the liabilities, next the expenses of the accounts, and then income and operating results.

*The combined principle* - applying this principle to the accounts is divided by a combination of the function and balance principles

### 3.1.5. Accounting Principles

In order for the financial statements to serve their purpose, or to give a true and fair view of the company's state of affairs, the accounting principles and assumptions serve as a starting point for the development of accounting standards and policies. Based on the Croatian Accounting Standards of Accounting and the *IAS 1 - Presentation of Financial Statements*, the general principles of financial reporting are:

- Unlimited business hours
- occurrence of events
- significance and compression
- consistency
- comparability
- caution
- clearing
- balance continuity - initial balance sheet
- separate measurement of items

- **Unlimited business hours**

This principle is based on the assumption that an entrepreneur operates without limits over time, and that he intends to do business in the foreseeable future, meaning that he does not intend to liquidate, or substantially reduce the scope of his business.

- **Occurrence of events**

The significance of this assumption is that the balance sheet items are recognized when a business event occurs and new cash or equivalent is received. These assumptions are the basis for the preparation of all financial statements, except the cash flow statement 1.3.3. Significance (Materiality)

- **Significance and compression**

Based on this principle, it is necessary to distinguish which position or information is significant, and whether it should be presented separately in the reports, or displayed grouped with other positions. The measure of the item is significant if its disclosure could affect the user making a business decision based on financial statements.

- **Consistency**

This principle requires the accounting policies use recognisable and measureable positions in the financial statements, which are then applied during multiple accounting periods. Otherwise, accounting policies could become instrumental in manipulating the financial statements.

- **Purchase expense**

Based on this principle, products and services can not be worth more than the price they were purchased for. However, it is permissible for an undertaking to use other methods of measuring asset positions for revaluation, for example, when recognizing and measuring the positions of the financial statements.

- **Comparability**

The user of the financial report should be able to compare the report with the reports from the previous period, as well as with other reports.

- **Caution**

This principle implies that asset and income items may be slightly underestimated, and liabilities and expenses slightly overvalued or anticipated, yet anticipating loss. This does not mean that this principle allows the creation of hidden reserves, ie intentional undercutting of assets or revenues or deliberately overestimating liabilities or expense

Assets, liabilities, revenues and expenditures should not be abolished unless the requirement is exceeded or the standard allowed.

In income and expense items, the payment can only be made if:

- This is required or permitted by the IAS, or
- Supporting information can be found in the financial statements

- **Balance continuity - initial balance sheet**

The starting balance for each business year corresponds to the balance sheet of the previous year **Separate measurement of items**

Items of assets, liabilities and capital are measured separately.

### **3.1.6. Accounting based on legal and professional standards**

The organization of accounting in business entities is a complex process, and depends on a number of factors that can be internal or external. Internal factors are different in each business subject and depend on the business involved, the size of entrepreneurs, management and so on.

External factors are accounting regulations, which include the Accounting Act, International Accounting Standards, International Financial Reporting Standards, and in Croatia, the Croatian Financial Reporting Standards. The Croatian Financial Reporting Standards are the accounting principles and rules that applied by the accounting profession, and are used when drafting and presenting the financial statements of the Decision on Disclosure to the Croatian. Consequently, recording of business changes in accounting records has not been left to the entrepreneurs' discretion, but is regularly regulated by standards.

The Croatian Financial Reporting Standards are the basis for the preparation of the financial statements of small and medium-sized enterprises in Croatia, and are based on International Financial Reporting Standards. The Croatian financial reporting standards are similar to the International Financial Reporting Standards, and are in fact just a simplified version. Since most small and medium-sized entrepreneurs in Croatia find that the International Financial Reporting Standards are overwhelming and too extensive, as the IASB has failed to set standards for SMEs, a Working Group led by prof.dr.sc. Stjepan Tadijancevic, created the Croatian Committee for Financial Reporting Standards. If the solution can not be found in HSFI, it is necessary to check the solution of the accounting records in IFRSs and IASs. Large

companies have an obligation to apply the International Financial Reporting Standards, in addition to any businesses whose shares are listed on the stock exchange.

The Croatian Financial Reporting Standards are adopted by the Financial Reporting Standards Committee, which is a nine-member professional body with five-year mandates, nominated by the ministry of Finance, appointed and dismissed by the Government of the Republic of Croatia.

The Croatian Financial Reporting Standards (HSFI) are as follows:

- HSFI 1 – Financial Reporting
- HSFI 2 – Consolidated financial reporting
- HSFI 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- HSFI 4 - Events after the balance sheet date
- HSFI 5 - Long - term intangible assets
- HSFI 6 - Long - term tangible assets
- HSFI 7 - Real estate investments
- HSFI 8 – Long – term assets intended for sale and termination of operations
- HSFI 9 - Financial assets
- HSFI 10 - Supplies
- HSFI 11 - Demand
- HSFI 12 - Capital
- HSFI 13 - Obligations
- HSFI 14 - Time delimitations
- HSFI 15 - Revenues
- HSFI 16 - Expenses
- HSFI 17 - Agriculture

Large Companies in the Republic of Croatia apply the International Accounting Standards and the International Financial Reporting Standards. The International Financial Reporting Standards (IFRS) are adopted by the International Accounting Standards Board (IASB), as outlined in the IASBs in 2001, as supplemented by the International Financial Reporting Standards (IFRS) (International Financial Reporting Standards, NN, 140/06)  
Numbers and Names of International Financial Reporting Standards (MSFI):

- MSFI 1 – First Implementation of International Financial Reporting Standards
- MSFI 2 – Share-based payments
- MSFI 3 – Business connections
- MSFI 4 – Insurance contracts
- MSFI 5 – Long - term assets intended for sale and termination of operations
- MSFI 6 – Exploration and evaluation of mineral resources
- MSFI 7 – Financial Instruments: Disclosures
- MSFI 8 – Business segments
- MSFI 10 – Consolidated financial statements
- MSFI 11 – Joint ventures
- MSFI 12 – Publishing shares in other entities
- MSFI 13 – Measurement of fair value

Numbers and Names of International Accounting Standards (MRS):

- MRS 1 – Presentation of financial statements



MRS 2 - Supplies  
 MRS 7 – Cashflow statements  
 MRS 8 - Accounting Policies, Changes in Accounting Estimates and Errors  
 MRS 10 - Events after the reporting period  
 MRS11 – Construction contracts  
 MRS 12 – Profit tax  
 MRS 16 – Real estate, production plants and equipment  
 MRS 17 - Leasing  
 MRS 18 - Revenues  
 MRS 19 – Employee income  
 MRS 20 - Accounting for State Aid and State Aid  
 MRS 21 - The Effects of Currency Exchange Rate Changes  
 MRS 23 – Rental Costs  
 MRS 24 - Publishing Related Persons  
 MRS 26 - Accounting and pension plans reporting  
 MRS 27 - Unconsolidated financial statements  
 MRS 28 - Shares in affiliated entities and joint ventures  
 MRS 29 - Financial reporting in hyperinflationary economies  
 MRS 32 - Financial Instruments: Presentation  
 MRS 33 - Earnings per share  
 MRS 34 - Financial reporting for periods over the year  
 MRS 36 – Reduction of assets  
 MRS 37 - Provisions, Contingent Liabilities and Contingent Assets  
 MRS 38 - Intangible assets  
 MRS 39 - Financial Instruments: Recognition and Measurement  
 MRS 40 - Real estate investments  
 MRS 41 - Agriculture

### **3.2. Important / exceptions**

In order to define which group an entrepreneur belongs to and which accounting standards apply, the Accounting Act has classified the entrepreneurs in the manner defined below.

Entrepreneurs are divided into micro, small, medium and large, depending on the indicators established on the last business day of the previous business year, for which the financial statements are prepared. Indicators which are the basis for determining which business falls into which category, are divided as such:

- the amount of total assets
- the amount of revenue
- average number of employees during the business year

Micro enterprises are those who do not exceed the boundary indicators in two of the following three conditions:

- total assets 2,600,000.00 kunas
- income HRK 5,200,000.00
- average number of employees during the business year - 10 workers

Small enterprises are those which are not microenterprises, and do not exceed the boundary indicators in two of the following three conditions:

- total assets HRK 30,000,000.00
- income HRK 60,000,000.00
- average number of employees during the business year - 50 workers

Medium-sized enterprises are those which are neither micros or small entrepreneurs, and do not cross the boundary indicators in two of the following three conditions:

- total assets HRK 150,000,000.00
- income 300,000,000,00 kuna
- average number of employees during the business year - 250 workers.

Large enterprises are:

- undertakings crossing the marginal indicators in at least two of the three conditions referred to in paragraph 4 of this Article
- Banks, Savings Banks, Housing Savings, Electronic Money Institutions, Insurance Companies, Reinsurance Companies, Leasing Companies, UCITS Fund Management Companies, Alternative Investment Fund Management Companies, UCITS Funds, Alternative Investment Funds, Pension Managed Companies compulsory pension funds, voluntary pension funds, voluntary pension funds, compulsory pension funds, pension insurance companies, retirement companies, factoring companies, investment companies, stock exchanges, central clearing companies, registers, Settlement and / or Settlement System Operators and Operators of the Investor Protection Fund, irrespective of whether the requirements of item 1 of this paragraph are met.
- Newly established enterprises and statutory enterprises shall be classified in accordance with paragraphs 2, 3, 4 and 5 of this Article on the basis of the indicators for the period from the date of establishment or status change by the end of their first business year or the last day that period. For the purposes of classification, the undertakings referred to in this paragraph, the amount of revenue is converted to the annual level. The classification criteria implies the status and amounts as of 31 December of the year preceding the year for which the classification is to be made.

### **3.3. Tips from professionals**

Existing accounting systems in the Republic of Croatia are characterised by certain specifics. One of these specifics is the application of the appropriate accounting concept. The accounting concept represents the totality of the applied general accounting assumptions and the chosen accounting basis, ie the choice of the exact moment of recognising transactions or events in the financial statements of the reporting period.

Accounting concepts differ, therefore, it is important to define the exact moment when the measurement and recognition of elements of financial statements have been carried out - whether this should be at the time that the cash flow was created, or at the time of the business event. The accounting concept also points to the basis of measurement of the elements of the

financial statements, ie whether the total economic resources, financial resources, only the current part of the financial resources, or the cash flow and the balance are measured. In the aforementioned scenario, two fundamentals of accounting concepts are distinguished: the cash concept and the concept of the event, also known as the accounting concept.

### **3.4. Additional reading**

- Alfio Barbieri, "Accounting Cash Flow Analysis of a Client in a Debt Relationship with a Bank", <https://hrcak.srce.hr/file/45039>

In professional publications, the author acquaints readers with the methodology of determining the cash flow at a client level in a debt relationship with the bank. Determining the cash flow, at the level of a particular client, and even a client in a debt relationship with the bank, is of fundamental importance for the needs of estimating and budgeting the cash flow, both at the client's level and at the bank level.

- Vašiček, Davor and Sikirić, Ana Marija, "Calculation Accounting Principle in Nonprofits Organizations - Challenges and Advantages", [https://bib.irb.hr/datoteka/834669.Vasicek\\_i\\_Sikiric2.doc](https://bib.irb.hr/datoteka/834669.Vasicek_i_Sikiric2.doc)

The paper analyzes the information on the consequences that the accounting concept has on the financial position of non-profit organizations and provides recommendations for improving the accounting system. In order to increase transparency in Croatia, the foundations of financial operations and accounting of NPOs is based on the application of the accounting baseline, which is an approximate application of the IAS. The Accounting Information System used by the NPO today responds to the requirements of transparency as it provides insight into the spending of resources from public sources, and enables comparability in accordance with EUROSTAT standards. In the application of the accounting concept, controversy occurs when identifying some of the elements of the financial statements.

### 3.5. Quiz and Exercise

#### Quiz

- 1) Which of the following is not a basic classification of positions in the account plan:
  - e) Assets
  - f) Capital and liabilities
  - g) Money
  - h) Income
  
- 2) Companies that do not exceed the boundary indicators in two of the following three conditions: total assets HRK 30,000,000.00; income HRK 60,000,000.00; the average number of employees during the business year - 50 workers, are considered to be:
  - e) a micro-entreprise
  - f) a small entreprise
  - g) a medium-sized enterprise
  - h) a large entreprise

#### Exercise:

Try to explain the most important accounting principle and elaborate your opinion.

#### Solution:

#### Rate the answer:

- a) correct
- b) incomplete
- c) wrong

## **4. Economic categories**

### **4.1. Overview / Theoretical framework**

This chapter is designed to introduce concepts of economic categories, their classification and basic features.

After acquiring knowledge from this Unit, you will be:

- proficient in basic concepts of economic categories
- able to identify the characteristics of economic categories and their basic classification.

#### **4.1.1. Accounting Categories**

Accounting categories and terms are defined by accounting standards. These are the principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements. Accounting standards are not static. They are being continuously complementing and changing, parallel to the development of accounting theory and practice.

Croatia is applying domestic and international financial reporting standards as accounting standards and are subject to the Accounting Act.

The Croatian standards are established and interpreted by a professional body - the Financial Accounting Standards Board, while the international financial reporting standards are regulated by the EU Regulation.

According to accounting standards, accounting categories include: assets, liabilities, capital, income, expense, profit.

Each category will be briefly described below.

##### **A. Asset**

An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit. Assets are generally brought in business to benefit from them and to increase the value of a business. An asset may be used individually or in combination with other assets in the production of goods or services that an entrepreneur will sell, exchanged for another asset, used to settle obligations or divided among the owners.

Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations. An asset can be thought of as something that in the future can generate cash flow, reduce expenses, improve sales, regardless of whether it is a company's manufacturing equipment or a patent on a particular technology. One of the classifications of assets is based on their physical existence. According to this classification, an asset is either a tangible asset, intangible asset or money.

According to classification of the assets based on their function and a lifetime, there are two types:

- fixed assets
- current assets

Fixed asset is something that is expected to continue to be productive for a business for more than one year. An entrepreneur uses it in his business. During usage it is gradually wearing off and depreciating, but does not change its shape. Fixed asset can be in a form of intangible assets, tangible assets, financial assets and claims with a due date of more than one year.

Intangible fixed asset is a non-physical asset having a useful life greater than one year. This asset may be in a physical form and in the form of a contract etc.

Intangible fixed asset includes R & D expenditures, foundations' expenses, concessions, patents and licenses, trademarks, investments in other assets, goodwill, prepayments for intangible assets and others.

R & D expenditures are expenses used for the research and development of new products and technologies, results of which are expected to be used for more than one business year.

Patent is a set of exclusive rights granted to an inventor for the invention, which is a solution to a specific technological problem. Patent is recognised for the inventions relating to the product, process or application. When patent protection is granted, the invention becomes the property of the inventor, which like any other form of property or business asset can be bought, sold, rented or hired for a limited period of time. The rule states that it may not last for more than 20 years from the date of filing the application, after which it becomes public good. Patent can be reported on the balance sheet under intangible assets only if it is acquired from others.

Licence is the purchase of a permission, a license to use one's patented invention or a protected intangible asset. The time right to use or the right to produce a certain amount of product is determined by a license agreement that is legally regulated by the Civil Obligations Act.

Franchise is a right acquired by paying a fee for a particular business. It is considered to be a fixed intangible asset because as it is pre-paid for multiple business years.

Concession is a contractual right when one party grants another party goods or the rights of their economic usage and the other party pays the fee for those rights.

Trademark guarantees the owner **exclusive right** to place on market the products and/or services identified and protected by its recognisable sign. The trademark protection in Croatia, as well as in many other countries, is valid for ten years, counting from the date of filing the application. The protection rights may be unlimitedly extended for periods of ten years, provided that the application is filed on time (generally before previous ten years have expired) and that corresponding fees and charges are paid.

Goodwill is the difference between the value of a company on the stock market at a certain time and its accounting net set of assets. It is an "intangible" fixed company's asset, which enables it to make a higher profit than the normal or classic profit rate, made by other similar type of companies.

Tangible fixed asset is an asset that has a physical form. It includes land, construction facilities, plants and equipment, tools, operating inventory and transport assets, residential buildings and flats, prepayments for fixed tangible assets, fixed tangible assets under preparation. Belak, V. (2006). *Profesionalno računovodstvo*. Zagreb. Deloitte. 156

Fixed financial assets are shares in affiliated entrepreneurs, loans given to affiliated entrepreneurs, interests, investments in bonds, loans, deposits, personal shares etc.

Current assets are expected to be converted into cash in a very short time, usually within one year. Commonly they include: money, investments in active securities and supplies. Current assets appear in all three basic forms: goods, rights and money.

The balance sheet of the current assets includes:

- supplies
- short-term receivables
- short-term financial assets, short-term given loans, given deposits, shares in affiliated companies etc.)
- cash and cash equivalents
- actual time delays.

### **B. Liability**

A liability is a company's financial debt or obligations that arise during the course of its business operations. Recorded on the right side of the balance sheet, liabilities include loans, mortgages, obligations towards suppliers, deferred revenues etc.

According to the International Accounting Standards, the liability is defined as the current obligation of the company resulting from past events. The settlement of those liabilities would result in the outflow of resources containing economic benefits. Liability is the duty or the responsibility to act or do something in a certain way. Liabilities can be legally enforceable and can be derived from business practices. Payoff of the current liability can be accomplished in several ways: by cash payment, by transferring another asset, by providing services, by replacing one liability with another one, or by creditor losing his rights or waiving them. According to the payment deadline, there are two types of liabilities:

Short-term liabilities are expected to be settled within one year, counting from the balance sheet date. Short-term liabilities include liabilities for received loans, deposits from citizens or other companies from the country or abroad with a payment deadline of less than a year.

Long-term liabilities are usually incurred for the purpose of acquiring long-term assets, or refinancing long-term assets that have not matured.

### **C. Capital**

Capital refers to financial assets or the financial value of assets, which is left to the owners after all liabilities are settled. In the case of a joint-stock company, the capital is expressed as a "share capital" and when it comes to a limited liability company it is expressed as a "registered basic capital". The balance sheet is breaking down liability into the registered capital, capital reserves, reserves, revaluation reserves, retained earnings, profit or loss brought forward, the earnings or loss for the current year.

Capital can be invested in several forms:

- money: by paying to a giro account of your company
- things: by putting the plant, equipment, supplies etc. into your company

- rights: by entering a patent, license or some other right into your company.

Regardless of whether it is a joint-stock company or a limited liability company, the capital includes:

- equity capital brought directly to the company by owners
- earned capital.

The earned capital is the result of business activities of the entrepreneurs. It is the difference between income and expense after taxation, i.e. after payment of capital gains tax. Based on the decision of the company's management, instead of being paid to the owners, the earned capital can be transferred to retained earnings.

There are several ways to increase your own capital:

- by bringing the new basic capital to the company, by new members joining the company
- by recapitalization,
- by increasing the basic capital by the existing members of the company
- in the case of joint stock companies with public offering and capital gains.

Capital reduction occurs in the following cases:

- current year losses,
- the payment of gains for the current year or retained earnings of previous years to the owners, i.e. the payment of dividends to shareholders in the case of the joint stock companies
- the repayment of the stake from the basic capital to the investor who exits the company
- impairments from revaluation reserves of reduced value of already revalued long-term assets.

#### **D. Income**

Income is the gross of cashflow, claims or other benefits arising from the regular activities of the company from the sale of goods, provision of services and from the use of resources of other companies that make interest on royalties and dividends. Income is measured by claims from buyers and customers for delivered goods and services performed, and by fees and merits resulting from the use of buyers' and customers' resources. Amounts charged on behalf of third parties, such as certain taxes, are excluded. In a representative relationship, the income is the amount of commission, rather than the gross cashflow, claims or other fees.

Income recognition mainly refers to the situation when the income is recognized in the company's profit statement. The amount of the income deriving from a transaction is usually determined on the basis of an agreement between the parties involved in the transaction. When there are uncertainties regarding the determination of the amount or the related costs, these uncertainties could affect the determination of the time of the income recognition.

Income recognition requires that the income can be measured and that its final collection can be expected at the time of the sale or providing services. The real expectation of the final income collection does ensure that payment by itself.

Where there is not possible with certainty to estimate the payment at the time of sale or provision of services, the income recognition is delayed. In such cases it is appropriate to recognise the income only when money is received. If there is no uncertainty when it comes to the final collection, the income is recognised at the time of the sale even when cash payments are made in instalments. The main types of income are business, financial and super-normal profit.

Business incomes are made during the regular company's business, i.e. by selling finished goods, by providing services, renting land, business premises etc.



Financial incomes are made through positive exchange rate differences and interest rates for lending financial resources to a legal or natural person.

Super-natural profit was not generated by the company's regular business activities. This type of income includes excess of materials, income from penalties etc.

### **E. Expenses**

Expenses are decreases in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in decrease in equity, other than distribution to owners. Recognition and measurement of expenditures depends on the concept of capital and its preservation used by an entrepreneur when compiling and presenting financial statements. Expenses are recognized in the income statement when the reduction of future economic benefits results from a decrease in assets or an increase in liabilities, and which can be reliably measured. This means that the recognition of expenses occurs at the same time as the recognition of an increase in liabilities or decrease in assets. The main types of expenses are business, financial and super-normal expenses.

Business expenses are the result of the company's core business and their level depends on the volume and type of business. This includes the costs of production incurred due to the effects making, the purchase of merchandise goods, administrative expenses and other expenditures needed for basic business processes; purchase and sale expenses (if specifically accounted for), and subsequent adjustments to costs that are accounted for as operating expenses.

Financial expenses are the result of obtaining, using and reimbursing financial resources. Financial expenses include: negative interest rates, negative exchange rate differences, a decrease in the value of long-term and short-term financial investments and the coverage of the negative balance of revaluation reserves.

Super-normal expenses are the result of unplanned downsizing of business assets or unplanned increase in liabilities. Most often they are the consequence of irrationality from the previous period or because of the influence of the environment. This means that they do not result in new values and they do cause the decrease in business results.

### **F. Business result**

The business result represents the success of an enterprise expressed by monetary scales. Comparison between income and expenses reveals the financial results. When the income is higher than the expenses, then the financial result is positive. Loss represents a negative financial result when the expenses are higher than the income.

According to accounting regulations, the company establishes a net gain in the amount of difference between the established profit and profit tax. In the case that the established profit before tax is not sufficient for taxes and contributions, a net loss is established in the amount of difference between the amount of tax and the established profit. If before taxation a loss is recognised, before the taxation the amount of the loss is increased for the amount of profit tax, and a net loss is established.

After determining the business results, and based on a written decision of the owner or management, the profit is distributed and the loss compensated. In the case of a loss in the business, it is reimbursed from reserves, retained earnings from previous years etc., in order to

enable further business operations. When it is not possible to cover the loss, a bankruptcy proceeding is initiated, followed by the liquidation of the company.

## 4.2. Important / exceptions

Investment adviser needs to understand the different economic categories in order to be able to talk about business investments.

## 4.3. Tips from professionals

To read and understand the financial statements, plans, projects etc, it is necessary to understand the concepts of economic categories and to be able to identify their features.

Financial report's content: Balance sheet:

<b>ASSEST</b>		<b>LIABILITIES</b>	
DEMANDS REGISTERED BUT CAPITAL	FOR 0,00 UNPAID	CAPITAL AND RESERVES	48,000,00
LONG-TERM ASSET	20,000,00	BASIC REGISTERED CAPITAL	20,000,00
Intangible asset	7,000,00	RESERVES AND PROFIT	0,00
Tangible asset	10,000,00	REVALUATION RESERVES	0,00
Financial asset	3,000,00	FER VALUE RESERVES	0,00
Demands	0,00	RETAINED EARNINGS OR CARRY-FORWARD LOSS	18,000,00
SHORT-TERM ASSET	78,000,00	BUSINESS YEAR PROFIT OR LOSS	10,000,00
Reserves / Inventory	38,000,00	MINORITY INTEREST	0,00
Demands	20,000,00	RESERVING	0,00
Financial asset	5000,00	LONG-TERM LIABILITIES	10,000,00
Cash on the account or in the register	15,000,00	SHORT-TERM LIABILITIES	38,000,00
PAID FUTURE PERIODS' COSTS		POSTPONED LIABILITIES' PAYMENT AND FUTURE PERIODS' INCOME	2,000,00
ASSEST TOTAL	98,000,00	LIABILITIES TOTAL	98,000,00
Off-balance records		Off-balance records	

Balance sheet of success (Profit and loss account)	
BUSINESS INCOME	380,000,00
BUSINESS OUTCOME	369,000,00
FINANCIAL INCOME	2,000,00
FINANCIAL OUTCOME	1,000,00
INCOME TOTAL	382,000,00
OUTCOME TOTAL	370,000,00
INCOME BEFORE TAX	12000,00
OUTCOME BEFORE TAX	0,00
CORPORATION TAX	2,000,00
INCOME FOR THE PERIOD	10,000,00
OUTCOME OF THE PERIOD	0,00

#### 4.4. Additional reading:

Official web page. State intellectual propriety office. Available on: <http://www.dziv.hr/> (20.02.2018)

Official Gazette. *International standards of financial reports*. Available on: [https://narodne-novine.nn.hr/clanci/sluzbeni/1993\\_04\\_36\\_672.html](https://narodne-novine.nn.hr/clanci/sluzbeni/1993_04_36_672.html) (20.02.2018)

Official Gazette. *Croatian standards of financial reports*. Hrvatski standardi financijskog izvještavanja, [https://narodne-novine.nn.hr/clanci/sluzbeni/2008\\_03\\_30\\_992.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2008_03_30_992.html) (20.02.2018)

Zakon.hr. *Law on accounting*. Available on: <https://www.zakon.hr/z/118/Zakon-o-ra%C4%8Dunovodstvu> (20.02.2018)

#### 4.5. Questions and exercise:

2. What are accounting standards?

- The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of statistical statements.
- The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements.
- The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of public notes.

d) The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of tax declaration.

2. What is an asset?

a) An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing expense of future economic event.

b) An asset is a resource or property having a monetary/economic value, owned by state, which is capable of producing some future economic entrepreneurs' benefit.

c) An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit.

d) An asset is a resource which is a result of future business events, owned by an individual or entity, and is capable of producing entrepreneurs' economic benefit.

**Exercise:**

Which from the following list of assets is part of active and which of passive in financial report?

Money in cash registry

Finished goods inventory

Suppliers' liabilities

Business year's profit

Business establishment

**Correct answer:**

**Rate the answer:**

a) correct

b) incomplete

c) wrong

## 5. Accounting recording of all economic categories



### 5.1. Overview / theoretical framework

As we observed in the previous unit, economic categories in accounting are based on several basic concepts related to business activities of a company. Business activities are the main activities of the company that primarily generate revenues, the activities related to the production and sale of goods and services, with the exception of investment and financial activities. In this section, the issues of accounting recording of economic categories, which primarily refer to assets, liabilities and equity that are included in the income statement as one of the fundamental financial statements are going to be explained.

After reading this unit, you will be able to:

- issues of accounting recording of economic categories
- learn more about long-term assets, short-term assets, liabilities and equity

#### 5.1.1. Introduction

In the accounting sense, the most important economic categories are the integral part of each accounting recording. Whether it is accounting for entrepreneurs, non-profit organizations, budget and budget-users accounting, tradesmen and freelancers, economic categories such as assets (long-term and short-term assets), liabilities and capital are applicable in all accounting concepts. For entrepreneurs, it is especially important to observe double-sided economic categories (assets, liabilities, capital, income, expenses and operating results) that make up the basic feature of dual bookkeeping.

#### I. Assets

To carry out its activities, an enterprise needs assets, which represent the resource that the company uses to carry out its business. According to its function and lifespan, assets are divided into:

- a) long-term (permanent) assets
- b) short-term assets

Assets can be tangible and intangible and money. According to its function and lifespan, assets are divided into:

- a) long-term (permanent) assets
- b) intangible assets and money.

## **I. Long-term assets**

Long-term assets consist of:

- Intangible assets (research and development expenditures, formation expenses, concessions, patents and licenses, trademarks, investments in other assets, goodwill, advances on intangible assets, etc)
- Tangible assets (land, forests, building facilities, plant and equipment, tangible assets in course of construction, etc)
- Financial assets (shares in affiliated companies, investments in long-term securities, current deposits, down payments, long-term loans etc)
- Long-term receivables (from affiliated companies, from sale on long-term credit etc)

### **– Long-term tangible assets**

Plant and equipment are long-term assets acquired for use in business operations and are not intended to be further sold to customers. For example, land, buildings, machinery, furniture and inventory, office equipment and vehicles. A freight vehicle in the car salon is part of the inventory. When the same vehicle is sold to a furniture shop, in order to be used to deliver goods to customers, it becomes a unit of plant and equipment.

Tangible assets are tangible physical assets, such as land, buildings or machines. This group can be divided into two different subgroups:

- a) property subject to depreciation - includes tangible fixed assets of a limited useful life such as buildings and office equipment
- b) land - the only tangible property that is not a subject to depreciation is land as it has an unlimited useful life.

### **– Determination of procurement costs of plant and equipment**

The costs of plant and equipment purchases include all legitimate and necessary expenditures for the acquisition of assets and their putting into operation. As the benefits of the machine ownership will flow into the company, for example for 10 years, all secondary costs incurred during the procurement and putting the machine into use will be included in the value of the machine. This is based on the accounting principle of aligning the income and expense. Since the machine will produce revenue for the next 10 years, the expenses must be allocated for the same period. For example, it may be expenses for transportation, transit insurance, installation, trial operation and other costs that are necessary for the asset to be ready for use.

### **– Capital expenditures and period costs**

Expenditures for acquisitions or for the extensions of tangible assets are called capital expenditures and are recorded in assets accounts. Ordinary repairs, maintenance, fuel, and other items required for the use of plant and equipment are called period costs and are recorded in expense accounts. The reason for charging the expense account is based on the assumption that the benefits of the expenses will be fully realized in the current period so that when determining the net profit, the expenditure should be deducted from the period revenue.

### **– Long-term intangible assets**

Intangible assets are those assets that have no physical characteristics and are not tangible, and the enterprise will achieve the economic effects of its use over a period of one year.

However, these assets may also be contained in a physical form, in the form of a contract and the like.

According to the Accounting Act, the position of intangible assets comprises:

- Research and development expenditure
- Patents, licenses, concessions, trademarks and other similar rights
- Goodwill and advances on intangible assets.

The basis for the recognition of intangible assets is found in IAS 38, on the basis of which a company should recognize the intangible asset at purchase cost only if it is probable that future economic benefits attributable to the asset will flow into the company and if the cost of the purchase of the asset can be determined reliably (<http://www.osfi.hr/>). The intangible asset should be systematically amortized with the best estimate of its useful life. R & D expenditures represent expenditure incurred for the research and development of new products and technologies whose results are expected to be used over a period of more than a year. These include investing in research and studies for acquiring innovation at the founding, expert services, appraisers, a meeting room for the founding assembly, and the like.

Investments in patents, licenses, concessions, trademarks, franchises, investment in leased assets, and similar rights are a form of intangible assets that the company uses to earn its income over a period of more than a year.

A patent is a right which protects the patent owner (inventor) in the economic exploitation of the invention. The patent can be recorded on the balance sheet under intangible assets only if it is acquired from others. Patents are recorded at the cost of the purchase plus all expenses directly attributable to its preparation for the intended use.

A license is the purchase of a right, i.e. a permission to exploit someone's patented inventions, protected industrial traditions and the like, protected intangible assets. This purchase indicates the time right to use it or the right to produce a certain amount of a product. The license agreement is legally regulated by the Civil Obligations Act.

A franchise is a right acquired when one company pays the other one a fee for a particular business. It usually includes a right to sell certain products or provide a franchise service by using a trademark or service mark, organization and the technology of sales or delivering the service. Well-known examples of a franchise are Taxi Cameo, Forenti and others in the fast-food industry, fashion brands. Usually, the fee is paid in advance for multiple periods or more financial years, and therefore the franchise is characterized as long-term intangible assets.

A concession is a contractually defined permission whereby one party gives another party goods or rights to the economic use and the other party pays a fee for using the rights. The condition for the acquired concession to be considered a long-term asset is that the fee has been agreed for several years and that it has been paid in advance. If the concession is paid in the period on the basis of a comparative achieving of economic benefits, then it is the expense of the period. The examples of concessions are concessions of local self-government units and cities, state concessions.

Investments in rights also include bought intellectual property rights (copyright and publishing rights), customer lists, trademark, know-how, market shares etc. The purchase cost also includes a paid tax that cannot be deducted.



Investing in borrowed assets in order to bring the rented facility into a condition adequate for carrying out the activity. Investments can also be made on the basis of a lease agreement of a real estate or movable property. When contracting a business premise lease it is often necessary to make an investment in the subject of the lease so that the leased premise is brought into a condition suitable for use. Often this investment can be done by the lessor, and then the lessee does not recognize such investment on his balance sheet.

A goodwill signifies a higher value of a company that it has thanks to its reputation and similar factors that cannot be measured or it can be difficult to measure them and which result in a higher value of the enterprise. This value is reflected in the positive difference between the values of the enterprise as a whole in comparison to the sum of the value of its individual parts. On the balance sheet, a goodwill is recognized only if it has arisen in the process of acquiring and merging of another company. In accordance with IAS 38, an internally generated goodwill does not meet the recognition criteria as an asset and cannot be recognized as intangible assets on the balance sheet of the company, since it is not a resource that can be identified and controlled by a company and the cost of its acquisition cannot be determined reliably (IAS 38, group of authors, 2016).

Advances on intangible investments are amounts of advances paid to the supplier on the basis of a contract.

#### – **Long-term financial assets**

Long-term financial assets are investments for the purpose of achieving future economic benefits in the form of interest, gains or certain indirect benefits. Investment returns are expected within a period of more than one year. Long-term financial assets consist of:

- investments in long-term securities (shares, bonds, treasury bills etc)
- long-term deposits and down payments
- shares in affiliated companies
- share in the capital of another company, etc
- given long-term loans

#### – **Long-term receivables**

Receivables are property-related relationships created on the basis of a credible document between the creditor and the debtor and thus the receivables for the creditor mean a right to charge, and for the debtor an obligation to pay or return the received goods, etc 13. (group of authors, 2004).

## **II. Short-term assets**

Current assets are types of assets that are expected to be converted into money in a very short time or in a business cycle, most often within a year, therefore those are relatively liquid assets. Current assets include money, investing in marketable securities and inventories. Inventories and receivables from customers are classified as current assets, even when the conversion of those assets into money will not be completed within one year, but for the classification of such assets as current, a business cycle that may be longer than a year is used. Current assets appear in the form of things, rights and money - all three basic forms.

The balance sheet of current assets includes:

- inventories
- short-term receivables (from customers, affiliated companies, employees, government)

- short-term financial assets (received short-term securities - checks, bills of exchange etc, short-term loans, deposits and down payments, shares in affiliated companies, etc)
- money and money equivalents (cash, foreign exchange funds - foreign currency etc)
- prepayments and deferred expenses (prepaid expenses and accrued income).

– **Short-term receivables**

Short-term receivables are those receivables that are expected to be realized within a short period of time, up to one year. The most common short-term receivables are receivables from customers, government receivables and the like. They are particularly interesting in case of problems with the entrepreneur's obligations settling since this is a balance sheet item for which money inflow is expected.

– **Money**

Money, as the most liquid asset is part of the company's short-term assets, and is recorded in bank accounts - "giro-accounts" - open letters of credit with the domestic bank, cash registers, foreign currency accounts, open foreign currency letters of credit and foreign exchange cash registers.



– **Short-term financial assets**

Short-term financial assets are cash placements for a period shorter than one year. The recognition and measurement of short-term financial assets are regulated by HSFI 9 (Financial Assets) and IAS 39 - Recognition and Measurement Financial Instruments. Short-term financial assets include: short-term loans given to other entrepreneurs, purchased securities, given deposits, and other short-term debt securities and the like.

### III. Liabilities

Liabilities are company's debts. In order to be successful, the company must borrow money to replace the funds invested by the owner thereby allowing further development of the enterprise. The borrowed money is used to purchase new and more efficient machines which results in more efficient production at lower costs. The one who lent the money to the company becomes a creditor while the company is obliged to repay the money. Liabilities towards creditors take precedence over the requirements of the owner.

The total assets available to the entrepreneur may originate from two sources:

- c) from creditors - other sources of property, so-called "liabilities"
- d) from the enterprise owner - own sources of assets on the balance sheet are referred to as "capital" or "equity". On the balance sheet, obligations are part of the liabilities and represent "other sources" of the assets of the enterprise.

According to IAS, a liability is defined as "the current corporate liability deriving from past events, which is expected to result in the outflow of resources containing economic benefits (the Decision on the Publication of Croatian Financial Reporting Standards, HSFI 13 NN, Zagreb 30 / 08). Based on maturity, liabilities are divided into:

- a) short-term (current) liabilities - liabilities that are expected to be settled within one year, counting from the balance sheet date,
- b) long-term liabilities - liabilities with a repayment term of more than one year counting from the balance sheet date.

– **Characteristics of liabilities**

Liabilities are defined as debts or obligations that have arisen from transactions or events in the past and require settlement in the future. Therefore, the company is now making a commitment to give up the resources in the future.

– **Differences between debts and equity**

Enterprises can be financed from two sources, borrowed or their own. In case they are funded from the borrowed capital, then debts or obligations to return the funds are created. On the other hand, enterprises can be financed from their own resources, and that is called the equity. The main difference between them is that the receivables of the creditor mature, which means that they need to be paid on the date called the maturity date, and the equity is not due. Furthermore, liabilities have priority over the equity in the case of enterprise liquidation, however, the creditors do not thereby have the right to control the business of the enterprise. The liabilities for issued short-term securities (such as checks and bills of exchange) which have been given to the creditors in order to settle a particular obligation or the intention is, by issuing securities, to collect funds from their buyers (commercial bills). Accrued liabilities arise when expenditures for which payments will be made in subsequent periods are recognized.

Examples of accrued liabilities include liabilities for interests, tax liabilities and wage liabilities.

Advances received. When a ‘‘future’’ buyer grants funds to a giro account of an entrepreneur regarding a future delivery of goods or services, a liability for the recipient of an advance is created: to make a delivery or to return the money. After the delivery of goods or services has been made, the entrepreneur submits to the buyer a regular delivery invoice, rectifies the previously calculated VAT on the advance and for the accepted advance credits the buyer.

Long-term liabilities are liabilities with a maturity of more than one year. Such liabilities are usually the result of purchases of long-term assets, the purchase of another company or the refinancing of an existing long-term liability which is about to mature.

Unlike long-term, short-term liabilities are liabilities with a maturity of less than one year and they are a result of regular business transactions. Liabilities for loans, deposits, etc. which are received in the country and from abroad, from citizens or other companies. Liabilities to banks and other financial institutions - from banks, insurance companies, etc.

Long-term provisions for risks and charges are current liabilities for future expenses, they are a source of finance related to the revenue burden of the current result for expected future costs that will result from current sales and the income of the accounting period. If provisions would not be recorded, incomes of the future periods would be charged and the result of the current business would be presented unrealistically. Provisions are determined on the basis of estimates or on the experience in cost estimates (IAS 37, group of authors, 2016). A deferred payment of the costs and the income of the future period - these positions are also referred to

as accruals and deferred income. For the purpose of a fair presentation of financial results, it is necessary to allocate more realistically the paid costs and revenues of the future period.

#### **IV. Capital**

Capital is the equity or own resources of a company's assets. The capital shows the value of the assets (money, things or rights) that the owners have invested in their company. In the case of a joint-stock company, the capital is expressed as "share capital", and when it comes to a limited liability company (LLC) it is expressed as "subscribed capital". Own capital represents a permanent source of the company's assets. It is recorded on the liability balance sheet and constitutes a permanent source of own assets that are recorded on the balance sheet assets. The value of own capital is equal to the net book value of the company, namely:

**NET BOOK VALUE = TOTAL ASSETS - LIABILITIES**

**CAPITAL = ASSETS – LIABILITIES**

Capital is always in connection with the owners of a company, founders, investors, shareholders. Capital is a counterbalance to assets on the balance sheet. From the formula, we can see that the equity in the liability statement shows how much of net worth belongs to the owners of the company.

Regardless of whether it is a joint-stock company or a limited liability company, the capital includes:

- invested (paid) equity directly brought by the owners, and
- earned capital.

In literature, capital is often referred to as equity, net assets, own capital or capital and reserves. Capital consists of: a subscribed (founding) capital, share premium (capital gain) or a capital loss, revaluation reserves, statutory reserves, legal reserves, reserves for own shares, other reserves, a retained gain or capital gain and loss carry forward or a loss for the current year (Bešvir, B., 2006).

Capital can be invested in several forms:

- money, by paying into giro account of the company,
- things: by bringing the plant, equipment, inventories, etc. into the company,
- rights: by introducing a patent, license or other rights into the company.

Earned equity is the result of business activities of entrepreneurs. It represents a gain after taxation. We talk about the difference between profit and expense after the profit tax has been paid. If the earned profit of the current year after taxation is not paid to the owners but is retained in the company, then, on the basis of the decision of the company's management, it is transferred to the retained profit or is "redistributed" to retained profit and reserves.

##### **– Own capital structure**

Based on the balance sheet, the components of own capital are:

- subscribed capital
- premiums for the issued shares (capital gain)
- revaluation reserves,
- reserves (statutory, legal, other)
- retained earnings
- loss carried forward
- gain

- loss for the current year (after taxation)

The company's own capital can be increased in several ways:

- through new members that bring new founding capital into the company,
- by recapitalization or by increasing the share of founding capital by existing members of the company,
- with new share issue (JSC),
- by a capital gain (JSC).

A decrease in a capital occurs when:

- a loss for the current year has been realized,
- a gain for the current year or the retained earnings for the previous years has been paid to owners or when the dividends are paid to the shareholders,
- a share has been paid out from the founding capital to the investor who exits from the company,
- the diminished value of the previously revalued long-term assets has been compensated from the revaluation reserves.

## **V. Profit and loss account**

The profit and loss account is a report showing the business performance of a company, that is, it shows the total profit and loss of the business and their difference as a gain (in case of positive business operating or a loss in the case of a negative business operating). The basic structure and contents of the profit and loss account are defined by the Accounting Act and are composed of:

- I. Operating revenues
- II. Operating expenses
- III. Financial revenue
- IV. Financial expenses
- V. SHARE IN THE PROFITS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS
- VI. SHARE IN THE PROFITS FROM JOINT VENTURES
- VII. SHARE IN THE LOSS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS
- VIII. SHARE IN THE LOSS FROM JOINT VENTURES
- IX. TOTAL INCOME
- X. TOTAL EXPENDITURE
- XI. PROFIT OR LOSS BEFORE TAXATION
- XII. PROFIT TAX
- XIII. PROFIT OR LOSS FOR THE PERIOD

## **VI. Revenue recognition**

Revenues represent one of the most important elements of the financial statements on the basis of which the business performance, methods of revenue recognition and measurement in the financial statements are estimated, as defined by the Accounting Standards (Sever, 2013). As regulated by IAS 18-Revenue, the recognition of revenue is based on the basic accounting assumption of the occurrence of an event, on the basis of which revenues and expenses are recognized at the time they were incurred, and not at the time of the actual money receipt or

expenditure. Revenue is earned when the main condition of the agreement between the two parties is fulfilled, revenue is recognized when it is probable that future economic benefits will flow into the enterprise and when those benefits can be measured reliably. Therefore, regarding the recognition of revenue, the principle of caution is very important requiring that the revenue is recognized only when it is certain while expenditures are recognized even when they are possible.

## VII. Expenditure recognition

As defined by IAS 1.7., expenditures are one of the five elements of the financial report and, together with the revenue, are directly related to the measuring of the financial performance. Expenditures can be recognized in the profit statement if the reduction of future economic benefits results in a decrease in assets or in the increase of liabilities that can be measured reliably. This means that the recognition of expenditures occurs at the same time as the recognition of the increase in liabilities or reduction of assets.

## VIII. Statement of comprehensive income

According to the International Financial Reporting Standards (IFRS), entrepreneurs, large enterprises as well as those entrepreneurs whose shares or debt securities are listed or are being prepared for their listing on an organized securities market are obliged to draw up a comprehensive income report (<http://national-novine.nn.hr>). The aforementioned report is, in fact, a supplement to the Income Statement and includes income and expense items that are not recognized as a gain or loss, but through the capital, i.e. comprehensive gains. The comprehensive income statement contains the following elements:

I	PROFIT OR LOSS FOR THE PERIOD
II	OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX
1.	Foreign exchange differences from foreign business operation recalculation
2.	Changes in revaluation reserves of long-term tangible and intangible assets
3.	Gain or loss on the basis of subsequent valuation of financial assets available for sale
4.	Gain or loss on the basis of effective cash flow hedge
5.	Gain or loss on the basis of effective hedging of net investment abroad
6.	Share in other comprehensive income/loss of companies linked by virtue of participating interests
7.	Actuarial gains/losses according to defined benefit plans
8.	Other non-proprietary changes in capital
III	TAX ON OTHER OVERALL COMPREHENSIVE PROFIT FOR THE PERIOD
IV	NET OTHER COMPREHENSIVE INCOME OR LOSS
V	COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD
	APPENDIX to the Report on Other Comprehensive Income (filled in by the entrepreneur who compiles the consolidated annual financial reports)

VI	COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD
1.	Attributed to equity holders of a parent company
2.	Attributed to a minority (non-controlling) interest

Table 1: Comprehensive income report

Source: [http://narodne-novine.nn.hr/clanci/sluzbeni/2015\\_09\\_96\\_1849.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2015_09_96_1849.html)

## 5.2. Important/exceptions

Given that the basic economic categories contain the financial information important to the investor but also to the corporate entities which are doing business with the company, it is the obligation to publish annual financial reports. Everyone has the right to insight into the publicly available annual financial reports of companies that are obliged to publish them and which are available on the Croatian Financial Agency website. The Accounting Act defines two groups of obliged entities:

1. Entities obliged to submit an annual financial report for public announcement
2. Entities obliged to submit an annual financial report for statistical and other purposes

Entities obliged to submit an annual financial report for the purposes of public disclosure are entrepreneurs, i.e. companies and individual traders, a business unit of an enterprise established in another Member State or in a third country if there is no obligation under the laws of that state to keep books and to draw up financial reports, and a business unit of an enterprise from a Member State or from a third state which is a taxpayer in accordance with the regulations governing taxes. This group also includes subsidiaries of foreign enterprises in the Republic of Croatia, if it is not a business unit as defined by the regulations governing companies.

Entities obliged to submit an annual financial report for statistical and other purposes are the above-mentioned entrepreneurs and legal and natural persons, taxpayers (entrepreneurs, craftsmen, freelancers).

## 5.3. Tips from professionals

Economic categories accounting is primarily linked to cost accounting, i.e. internal accounting, which mainly provides information to internal users and which monitors and studies internal processes in the enterprise, i.e. the processes of transforming inputs into the business outputs. However, accounting monitors all business processes in the enterprise, as we know, it targets certain accountancy information users. In accordance with the above, today, accounting is divided into a financial accounting, cost accounting, and managerial accounting. (Kravaica, Adionie, 2009).

## 5.4. Additional reading (more information and useful links)

- Robert F. Megis, Walter B. Megis, »Accounting, the basis for business decision making«, Mate d.o.o., Zagreb, 1999.

In the book, on more than 1200 pages, accounting and the use of accounting information as the basis for business decisions have been explored. The importance of the book lies in the

application of accounting in relation to the business environment while business and accounting practices have been explained using practical examples. In addition, the book also contains information on auditing, review and potential liability of independent auditors to the users of financial statements.

- Anastazija Vinković Kravaica, Eda Ribarić Adione, »Accounting, the basis for making business decisions«, Rijeka University of Applied Sciences, Rijeka, 2009.

The book deals with accounting from the aspect of the application of accounting skills in practice by mastering the procedures for monitoring of business performance based on the information presented in the accounting reports. In this paper, the basic accounting concepts have been elaborated and the contents of the accounting have been presented, together with an explanation of the features and a role of the accounting information system as well as the features of the accounting systems in the Republic of Croatia. Furthermore, the book is in accordance with International Accounting Standards, International Financial Reporting Standards, Croatian Financial Reporting Standards and Croatian Legislation.

## 5.5. Quiz and Exercise

### Quiz

1) Which categories are related to intangible fixed assets?

- a) Loans and deposits
- b) Patents, licenses, concessions, trademarks and other rights
- c) biological assets and investment in real estate
- d) Tools, drive inventory and transport assets

2) Which categories relate to short-term assets?

- a) Installations and equipment
- b) Tools, operational inventory and transport assets
- c) Biological assets and investment in real estate
- d) Inventories, cash and cash equivalents

### Exercise

Try to find an accountant's financial statements of any company. Name down the most important categories of profit and loss account.

**Solution:** On FINA website you can easily free access to the annual financial reports and other documents that entrepreneurs are obliged to submit to FINA for public posting pursuant to Article 30 of the Accounting Act. You can either find any other profit or loss account sheet or use the one from your company.

**Correct answer is:**

**Rate the answer:**

- a) correct
- b) incomplete
- c) wrong



## **6. Using relevant applications in practice - posting of the most common events in a company / private entity**



### **6.1. Overview / theoretical framework**

In this part of the thematic unity, the relevant practices in the posting of business events are explained using practical examples. The practical examples provide a clear and easy understanding of the process of registering business changes in the company. In order to present the relevant practices in the posting of business changes, each posting contains an explanation that gives the reader an additional insight into the matter.

After reading this unit, you will be able to:

- read and present practical examples related to posting of business changes

#### **6.1.1. Introduction**

The Accounting Act prescribes the obligation to keep books according to the rule of double-entry bookkeeping. The proper posting of data must meet the following criteria:

- it is based on an appropriate document,
- the information entered is in the Croatian language,
- data are entered in a continuous sequence without leaving a free space,
- no possibility to delete and change the original text and the amount,
- posting of data immediately upon the occurrence of a business event, depending on the time of arrival of a document for bookkeeping,
- respecting the principle of an unchangeable record.

Below are the posting examples based on the most important economic categories.

#### **6.1.2. Intangible assets**

The most common examples of assets classified as intangible are computer software, publishing rights, development expenditures, brands, know-how, goodwill, patents, licenses, concessions, trademarks and similar rights, franchises, licenses, marketing rights, design...

If we accept one of many definitions of intangible assets that defines it as being non-physical and which can be identified, it cannot be expected that a person who has not gone deeper into

the analysis or is not professionally involved in financial-accounting activities can understand what can and should be deemed as an intangible asset.

From the accounting aspect, intangible assets are defined by the Croatian Financial Reporting Standards n 5 and International Accounting Standards n 38.

These standards require the ability to identify assets and a control over them. The identification of an intangible asset implies its authenticity, which results from the possibility of separate sales, transfer, licensing, leasing or exchange. Also, the control over the means implies the possibility of realizing of the future economic benefit that needs to flow from the use of the means.

The most common examples of assets classified as intangible, according to the abovementioned standards, are computer software, publishing rights, development expenditures, brands, know-how, goodwill, patents, licenses, concessions, trademarks and similar rights, franchises, licenses, marketing rights, design, etc.

Intangible assets can be internally developed within the company, but according to the provisions of the abovementioned standards, the research phase and the development phase need to be distinguished. The expenses incurred in the research phase cannot be capitalized (attributed to the value of the intangible asset) but should be treated as costs incurred in a specific period. In the development phase, in order to attribute the costs incurred to the assets, the technical feasibility of the intangible asset to be completed must be proven, so that it is available for use or sale, the intent of the entity to complete the intangible asset, the availability of appropriate sources for the completion of the development phase, the possibility of the use or sale of assets, the possibility of reliable measurement of the costs incurred and which are attributed to the intangible assets during the development.

Intangible assets may have a limited and unlimited useful life. In the case of a limited useful life, the asset is amortized. Unlimited useful life implies the inability to estimate the timeframe when the entity will receive cash inflows from using the asset and the asset will not be amortized.

A very common example in practice is the acquisition of software or investment in property such as an investment in a rented space.

Example 1:

The entrepreneur has obtained a computer software license at the price of 2,000,00 kn with VAT:

Computer software 01200

---

1,600,00 kn

A claim for input tax 25% 18002

---

400,00 kn

Obligation to the supplier 2200

---

2,000,00 kn

Example 2:

Based on the long-term lease contract, the entrepreneur has invested in the necessary space adjustment HRK 100,000 with V.A.T. Based on the above-mentioned business event, we carry out the posting in the main book into the account of investment on borrowed assets for the improvement in the course of the lease contract, into the account of the obligation to the supplier providing the renovation service and into the account of the obligation to pay the VAT to the state:

Investment in borrowed assets 0121

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80,000,00 kn

Claim for input tax 25% 18002

---

20,000,00 kn

Obligation to the supplier 2200

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100,000,00 kn

### 6.1.3. Tangible Assets

"Fixed assets are assets that will be realized over a period of more than a year, ie having a lifetime of more than one year or assets that will be realized or held for sale or consumption for a period longer than the business cycle of a business entity. The primary purpose of this form is not the resale, but the use in the business process.



In order to classify and define an item as tangible fixed assets, the following conditions should be met:

- the company owns and uses those assets in the manufacture of goods or in the delivery of goods or services, for renting to others or for administrative purposes,
- it is an asset that is expected to be used for more than one period, ie longer than a year,
- when it is probable that the future economic benefits associated with the asset will flow into the company,
- when the cost can be reliably measured.
- Real estate, plant and equipment purchased exclusively for the purpose of further sale within the core business are not classified as non-current assets but as inventories. In such a case, real estate, plant and equipment are defined as current assets because non-currents assets are defined as assets that do not have the characteristics of current assets. In accounting, this is important because the revenue and expenses when selling current and non-current assets are recorded in different ways.

»Fixed assets (immovable assets, plant and equipment) in most companies represent a significant part of the total assets and are therefore important in presenting their financial position. One of the main issues in accounting related to fixed assets is the choice of the moment of recognition of assets and recognition criteria.

The following is an example of the addition of fixed assets and it is the procurement of a plant. The assumption is that there were no costs of putting the plant into operation and that it did not take a longer time to install the equipment or plant, and therefore there were no interest costs that could be attributed to the plant.



There is also the example of the sale of **fixed assets**.

The plant and equipment are not initially intended for sale in the ordinary course of business but this item of property may be sold due to obsolescence, replacement with a new one, etc. The assets can be sold at a higher or lower price than the book value, therefore both examples are given.

Example 1:

A bank loan of 500,000 kn was approved for the procurement of the production plant, thus the creditor paid directly to the supplier of the plant the amount of 500,000 including VAT.

Production plant 0300

1) 400,000,00 kn	
------------------	--

Claim for input tax 25 % 18002

1) 100,000,00 kn	
------------------	--

Obligation to supplier 2200

2) 500,000,00 kn	
------------------	--

	1) 500,000,00 kn
--	------------------

Obligation to banks for the loan approved 21400

	2) 500,000,00 kn
--	------------------

Example 2:

The property was sold at a lower price than the book value. The book value was HRK 200,000 and the property was sold at the price of HRK 170,000 plus VAT, so the realized loss was HRK 30,000.

Transport means-vehicles 03400

So 300,000,00 kn

100,000,00 kn 1)

200,000,00 kn 2)

Accumulated amortization of means of transfer 0394

100,000,00 kn 1)

VAT Obligations 25% 28020

42,500,00 kn 2)

Trade receivables 1200

2) 212,500,00 kn

Other operating income from the sale of tangible assets 77001

Disposal of tangible assets expenses 73021

2) 30,000,00 kn

Example 3:

The property was sold at a higher price than the book value. If we take the previous example where the book value is 200,000,00 HRK, and the property was sold at the price of 230,000,00 HRK plus VAT, therefore the realized profit is HRK 30,000,00.

Transport means-vehicles 03400

So 300,000,00 kn	10,000,00 kn 3) 200,000,00 kn 4)
------------------	-------------------------------------

Accumulated amortization of means of transfer 0394

	100,000,00 kn 3)
--	------------------

VAT obligations 25% 28020

	57,500,00 kn 4)
--	-----------------

Trade receivables 1200

4) 287,500,00 kn	
------------------	--

Other operating income from the sale of tangible assets 77001

	30,000,00 kn 4)
--	-----------------

Disposal of tangible assets expenses 73021

--	--

Explanation:

- 1) and 3) Accumulated depreciation is transferred into the tangible assets account and the unamortized cost of acquisition is determined
- 2) An invoice is issued to a buyer and VAT is recorded while the deficit is allocated into the expense account
  
- 4) An invoice is issued to the buyer, VAT is recorded and the surplus is allocated to the revenue account

Trade receivables are recorded on the debit side, since trade receivables are assets and their increase is recorded on the debit side.

The VAT obligation is recorded initially or as an increase on the demand side, since the increase in obligations and capital is recorded on the demand side.

#### 6.1.4. Short-term assets

Short-term assets are a form of a company's assets that can be converted into cash in the period up to one year. The capital invested in this type of asset constantly changes its form: available funds are used for the purchase of raw materials and wage payment, in the production process raw materials become semi-finished and finished products; by selling of finished goods claims are created and are finally converted into cash in the account and in the cash register.

– **The basic groups of short-term assets are** (poslovni.hr):

1. **Inventories:** raw materials and materials, ongoing production, commodities, finished goods, advance payments;

2. **Claims:** claims of related companies, customers claims, claims for excess payments based on profit, employees claims, state and other institutions claims, other claims;

3. **Financial assets:** shares in related companies, loans to related companies, securities, loans granted; deposits and bails, purchase of treasury shares, other short-term investments;

4. **Money in the bank and in the cash register**

**Short - term assets are divided into:**

- class 1 - money and rights





- class 3 - inventories – raw material and material inventories, inventory, car tires, spare parts and packaging
- class 6 – inventories of semi-products, finished products

**Money**

Doing business is possible under the condition that the entrepreneur opens a business account at one or more banks. It is a transaction account through which he will be making all the payments. This account is also called a "giro account".



1. The owner has paid into the giro account the share capital of HRK 200,000,00

Giro transaction accounts at banks 1000

200,000,00 kn	
Share capital 9000	200,000,00 kn

**Explanation:**

The increase in assets is recorded on the debit side, and the capital increase on the demand side because the recording is in balance and the assets and liabilities have been increased.

**Claims**

"Trade receivables are claims against buyers and others for money, goods or services. For the purposes of financial statements, receivables are classified as short-term or long-term. Short-term trade receivables are those that are expected to be collected within one year or during the current business cycle, depending on which period is longer. All other receivables are classified as long-term.

Receivables are further divided into trade and non-trade receivables.

Trade receivables are amounts owed by buyers for goods sold and delivered services as part of normal business activities. Trade receivables, usually the most significant of the company's assets, may be further classified as receivables from buyers and debentures.

Customer receivables, the oral promise of the buyer to pay for the goods purchased and the delivered services, are normally chargeable within 30 to 60 days and represent 'open accounts' arising from short-term credit extensions.

Debentures from buyers are written promises of the issuer of the debenture to pay a certain amount of money on a certain date in the future and may arise as a result of sales, financing or other business events.

Non-trade receivables may arise from various business events, and can be written promises of both payment and delivery. Some examples of such claims are: advances to officials and employees; advances a to daughter-company; deposits to cover potential damages and losses; deposits serving as a guarantee of performance or payment; claims on dividends and interest etc. Due to its particular characteristics, non-trade receivables are generally classified and accounted for as separate balance sheet items ".

Receivables are part of the assets, and depending on their maturity, they are classified as long-term and short-term receivables. Those are fixed-maturity assets; we are talking about short-term receivables if they are expected to be realized within twelve months or long-term receivables if a maturity is longer. As defined by HSF1 11, receivables are recognized as an asset, only when the entrepreneur becomes one of the contracting parties to which the contractual terms and conditions apply.

**Classification of receivables according to their type**

Short-term receivables can be divided into: receivables from customers, employees' claims, government receivables and other short-term receivables.

The following is the example of recording claims from the state.

1) Goods worth 100,000 kn with VAT have been purchased from the supplier and the invoice has been issued

Obligation to suppliers	100,000,00 kn
-------------------------	---------------

Claim for input tax 25 %18002	
20,000,00 kn	

Purchase price of goods from domestic suppliers 6500	
80,000,00 kn	

### 6.1.5. Goods - retail

Recording of business events related to retail merchandise in the main book includes:

4. Calculation and recording of goods in the main book accounts
5. Recognition of revenue from sales of goods and VAT recording
6. Deleveragement of a shop for sold goods and recording of the purchase costs of sold goods

It is necessary to recognize sales revenue at the selling price of goods and to recognize expenses at the purchase price of the goods sold.

The calculation of the purchase value of the goods sold at the expense of the period (item 710) is done by calculating the VAT rate of the goods sold, for example, a 25% tax rate calculation is 20%.

After that, we need to calculate the amount of margins in the merchandise, using the formula for the average margin of the store that can be calculated in the following way:

Image 2: Average margin

$$\% \text{ store margin} = \frac{\text{Demand-side of account 6681}}{\text{Debit-side of account 663}} \times 100$$

6681- Store margin account

663 – Goods account at the store

Source: Jurić Đ., Purchase and sale of goods in retail trade, Accounting, audit and finances, Zagreb, October 2012

Example:

In the example of recording, the measurement technique of merchandise inventory costs based on the retail trade method is applied according to IAS 2, t. 17.

The inventory cost will be calculated by using a certain percentage of gross margin, so that the inventory sale value is reduced. The calculation is done by applying the average margin to the retail price of the goods sold.

1. Goods, according to the invoice, worth 80,000,00 kn were purchased from the supplier "ABC" d.o.o. Also, a delivery invoice has been received and amounts to 1,000,00 kn plus VAT. Calculation no. is issued and the store is charged the value. The margin is 100%.
2. Daily turnover of the "c" d.o.o. store amounts to 4,000,00 kn. VAT amounts to 4,000,00 x20% = 800 kn.
3. The goods sold are deleveraged in the accounting period. It is also necessary to calculate the average margin.

Purchase price of the goods from the supplier

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1) 64,000,00 kn

Supplier's obligation for goods 2200

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80,000,00 kn 1)

Claim for input tax 25 % 18002

---

2) 16,000,00 kn

Obligation to supplier for delivery service 2200

---

1,250,00 kn 1a)

Dependent Costs of Goods Purchase - transport 6510

---

1a) 1,000,00 kn

Claim for input tax 25 % 18002

---

1a) 250,00 kn

**Calculation:**

1. Net-purchase price of goods 64,000,00 kn
  2. + dependent costs of purchase 1000,00 kn
-

3.	= PURCHASE COST	65,000,00 kn
4.	+ Store margin 100 % or	
		65,000,00 kn
<hr/>		
5.	= SELLING PRICE WITHOUT VAT	130,000,00 kn
6.	=AMOUNT OF 25% VAT	
		32,500,00 kn
<hr/>		
7.	= SELLING PRICE WITH VAT	162,500,00 kn

**Calculation recording in the main book:**

Goods in the store 25% 6630

1b)162, 500 kn	
----------------	--

VAT calculated 25% 6640

	1b) 32,500,00 kn
--	------------------

Difference in the price of goods with 25% VAT 6670

	1b) 65,000,00 kn
--	------------------

Purchase price of goods from the supplier 6500

	1b) 64,000,00 kn
--	------------------

Dependent costs of goods purchase - transport 6510

	1,000 kn 1b)
--	--------------

Daily turnover of "c" d.o.o. store is 4,000,00 kn. The amount of VAT is  $4,000,00 \times 20\% = 800$  kn.

Store cash register 1022

2) 4,000,00 kn	
----------------	--

Merchandise sales revenue - retail 7601

	4,000,00 kn 2)
--	----------------

At the same time:

Merchandise sales revenue - retail 7601

	-800,00 kn 2a)
--	----------------

VAT obligation 25% 28020

	800,00 kn 2a)
--	---------------

The goods in the store are deleveraged in the accounting period. It is necessary to calculate the average margin.

$$\begin{aligned}
 \text{Average margin \%} &= \text{credit balance 6670/ debit balance 66,300} * 100 \\
 &= 65,000,00 / 162,500,00 \\
 &= 0,40 * 100 \\
 &= 40
 \end{aligned}$$

$$\begin{aligned}
 \text{The margin of the sold goods} &= \text{Store proceeds 4,000,00 kn} \times 40\% \\
 &= 1,600,00 \text{ kn}
 \end{aligned}$$

After the calculations have been completed, a business event can be recorded as follows:

Goods in the store 25% 6630

4,000 kn 3)

VAT calculated 25% 6640

3) 800 kn

Difference in the price of goods with 25% VAT 6670

1,600 kn 3)

Costs of goods sold 7100

3) 1600 kn

### 6.1.6. Obligations

The obligation is the present obligation of the entrepreneur, resulting from past events for whose settlement the outflow of resources is expected, as defined by HSFI13.

They are classified as short-term and long-term. In order for the obligation to be classified as short-term, it must meet the following criteria:

- it is expected to be settled in the regular business cycle,
- it is due to be settled within twelve months after the balance sheet date,
- it is primarily held for trading,
- the entrepreneur has no unconditional right to postpone the obligation settlement for at least twelve months after the balance sheet date.

When obligations do not meet the above criteria, we classify them as long-term obligations.



**The example of recording of long-term obligations:**

The entrepreneur "ABC" has received a loan from "XY" company in the amount of 250,000 KN, for a maturity of 5 years, the funds have been credited to the giro account.

Long-term obligations for loans

	250,000,00 kn
--	---------------

Giro account transaction accounts in banks 1000

250,000,00 kn	
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**6.1.7. Capital**

Capital:

1. In the business economy it is used to designate the size of the equity (capital owned by the company). According to the international accounting standards, equity is the capital of an enterprise which, regardless of the type of ownership, includes: the value of individual investors' investments, the value of issued shares and other unlisted property, such as disposable income above share premium, property value appreciation due to positive revaluation effects, reserves, undistributed profit.



There are three types of equity, ie own capital: owner’s capital, partnership capital and share capital. Owner’s capital is that owned by one person. The owner has unlimited liability for the debts of his company with his entire property. Capital owned by partnership companies is partnership capital. Although this type of capital is identical in terms of characteristics, it is possible that some owners have limited liability in the amount of business asset. The third type of capital is share capital. This capital is divided into shares and has a high degree of capital market mobility. The liability of its owners is limited to the amount of business property.

2. money that an individual or company invests in starting up or running a business venture. Capital means the total value of an enterprise's assets. Capital can therefore be viewed as assets or ownership (liabilities), ie as their interdependence;

3. long-term corporate liabilities;

4. in macroeconomics, assets capable of creating additional assets.



Capital is defined as one's own source of financing of assets and is calculated as the remaining assets of an enterprise after deduction of all its liabilities and it consists of:

- subscribed capital
- capital reserves
- revaluation reserves
- fair value reserves
- revenue reserves
- retained earnings or loss carryover, and profit or loss for the current year.

**An example of recording in the general ledger:**

The profit in the financial year has been determined by the profit and loss account in the amount of HRK 40,000 and has been recorded in the 9,500 account - profit in the financial year- and according to the Shareholders' Meeting decision, the profit is distributed as follows:

- Member X 10,000 kn
- Member Y 15,000 kn
- Member Z 15,000 kn

9420 Financial year profit

<i>40,000,00 kn</i>	
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9401 retained earnings-analytics member X

	10,000,00 kn
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9401 retained earnings-analytics member Y

	15,000,00 kn
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9401 retained earnings-analytics member Z

	15,000,00 kn
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## 6.2. Important / exceptions

A responsible accountant should commit to providing all his services in good faith, in accordance with the rules of the profession and conscientiously. Unfortunately, if the accountant's responsibilities are not contractually defined, it will be difficult to prove his sole responsibility for the omissions.

## 6.3. Tips from professionals

Every bookkeeper must continuously improve his skills and knowledge, stick to the legal regulations and the ethics code. It is good to subscribe to relevant publications so that the person is always informed on changes to legislation. On the other hand, the business organization management is interested in the financial position of the company and its profitability. For this reason, the management aims to get the financial statements as often and as qucker as possible so it can take actions to repair areas with poor results. Investors will be particularly interested in the annual financial statements because they are the reports used by decision-makers outside the company. For example, if creditors see the balance at the end of the year as "strong", they will be more willing to give credit to the company than if the financial position of the company is weak.

## 6.4. Additional reading (more information and useful links)

5. Burza weekly, the text author Mario Veršić, consultant and certified auditor, Finvers d.o.o. for business and financial consulting, Rijeka, <https://burza.com.hr/portal/sto-je-to-nematerijalna-imovina/7239> The article deals with the issue of intangible assets and their occurrence in the company.
6. Jelena Petermanec, Accounting and information subsystem of long-term assets in signal sistem d.o.o. company, final thesis, Juraj Dobrila University, Pula, Faculty of economics and tourism «Dr. Mijo Mirković», <https://repositorij.unipu.hr/islandora/object/unipu%3A600/datastream/PDF/view>  
In the paper, the emphasis is on the accounting information system of tangible fixed assets. The practical application of the company's accounting system is presented.
7. Portal Moj-bankar.hr, Trade receivables, <http://www.moj-bankar.hr/Kazalo/P/Potra%C5%BEivanja-od-kupaca>
8. Portal Moj-bankar.hr is the leading portal specialized in financial products and services on the domestic market. The portal serves as a guide through financial products offered by banks and specialized institutions in the Republic of Croatia. The portal deals with issues of trade receivables, and introduces the reader into the field of claims. Other professional articles related to accounting can be found on the portal as well.
9. Algebra:<https://www.algebra.hr/certifikacijski-seminari/wp-content/uploads/2015/12/Knjigovo%C4%91a-preview.pdf>  
The article briefly shows the company's bookkeeping system and its basic elements that the trainee can use to briefly review basic accounting rules and elements.

## 6.5. Quiz and Exercise

### Quiz

1) According to the chart of accounts and the basic keys, current assets are divided into the following classes:

a) 1, 3, 6

b) 0, 4, 5

c) 1, 3, 7

d) 1, 4, 7

2) Which of the below is regarded as short-term financial assets?

a) Reserves for own shares

b) Retained earnings

c) Investments in securities

d) Prepayments for supplies

### Exercise 1:

On the Internet, find the chart of accounts that is applied in the Republic of Croatia. According to the chart of accounts specify the accounts for the following transactions: Investments in Internet sites, land, equipment, investments in government bonds, escrow account, buyers of services from the EU.

### Solution:

### Rate the answer:

a) correct

b) incomplete

c) wrong

### Exercise 2:

a) The entrepreneur has invested 50,000 kuna in his giro account. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Giro account	

OWNERSHIP	CAPITAL	AND
LIABILITIES		
Equity capital		

b) The entrepreneur raised HRK 20,000 in cash from the giro account and placed them in the cash register. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Cash register	
Giro account	

c) The owner of the company withdrew part of the invested capital from the company in the amount of HRK 100.000,00. Make your transaction through the main book and enter the specified change in the foreseen locations by taking into account the credit-balance and demand-balance side.

Assets	
Giro account	

OWNERSHIP	CAPITAL	AND
LIABILITIES		
Equity capital		

**Solution**

**Rate the answer:**

- a) correct
- b) incomplete
- c) wrong

## Module 4 – BUSINESS FINANCING POSSIBILITIES

### Introduction

This module is designed to provide comprehensive information on business financing possibilities for entrepreneurs. The possibilities of financing through a state support and European funds have been analysed, taking into account the possibilities of financing through commercial banks as well. After analyzing this module, you will be able to:

- know the fundamental possibilities of obtaining state aid for investment
- recognize different business financing possibilities
- find European funds tenders
- understand the European Structural and Investment Funds system in the Republic of Croatia

### Glossary

**Grants** - Amount that the implementing body 1 allocates for a particular purpose to an eligible recipient (beneficiary). Grants depend on certain conditions related to use, keeping up to the established standards as well as on the proportionate contribution of the user. Grants will be determined in absolute amounts and ratios.

**eFunds** - Integrated management and control system of ESI funds.

**ESI Funds** - European Structural and Investment Funds - ESF, ERDF, CF, EMFF and EAFRD, pursuant to Recital 2 of Regulation (EU) No. 1303/2013.

**Funds** - Funds - ESF, ERDF and CF, in accordance with Preamble 9 of Regulation (EU) No. 1303/2013.

**Beneficiaries** - beneficiaries are all those who in any way benefit from the implementation of the project. Regarding the aforementioned, we distinguish: (a) target group(s): a group / body that will be directly and positively affected by the project in terms of project purpose; (b) end users: those who have a long-term benefit from the project at the level of the whole society or a group in general.

**Grant Criteria** - Grant Criteria are the criteria applied to all OP projects and include Selection Criteria and Acceptance Criteria.

**Small and Medium-sized Enterprise (SME)** - Small and medium-sized enterprise according to Annex 1 of Regulation 651/2014.

**Enterprise** - The enterprise is an entity engaged in economic activity, regardless of its legal form.

**Business Plan** - Business Plan describes the business idea and the measures required for the realization of the business. It also includes an assessment of the required human and financial resources (costs) and expected revenue to assess the viability of the investment.

**Applicant** - Any legal person of public or private law, including private law persons registered for economic activity and small business entities as defined in Article 1 of the Annex to Recommendation 2003/361 / EC of the European Commission, which is directly responsible for the initiation, management, implementation and the realization of the project results, responsible for preparing the project proposal and submitting it to the Call for Proposals, in order to receive co-financing for the project implementation; the applicant applies independently or with one or more partners; it may be a consortium or a community of applicants whose members are public or private law persons, joined with the aim of the joint project implementation action, whereby the leading (main) member as a grant beneficiary signs the Grant Agreement or the Grant Notice is addressed to him and he is responsible for the overall implementation of the project and towards the other contracting party / parties acts on behalf of all other members.

**Project** - Individual activity, group of activities or several groups of activities limited by time and place and directed to achieving a specific goal for which a support is sought or used.

**Costs** - Costs are a cash-expressed amount of resources used to achieve one or more project goals.

## **1. State Funds (including financing programs related to the establishment / further development of business through national programs)**

### **1.1. Theoretical Framework**

State funds that enable certain financing programs related to the establishment and / or further development of business are related to incentive measures. Incentive measures in Croatia have been specially developed and enabled by law to initiate entrepreneurial investment from domestic and / or foreign investors in order to increase the competitiveness of the Croatian economy. Equality of the parties and equality of the treatment are the underlying principles in the process of determining incentive measures for investors where rights and obligations equally belong to domestic and foreign investors. Therefore, in the same way, domestic and foreign investors have access to grants, financial support and tax relief.

Incentive measures may be used by entrepreneurs registered in the Republic of Croatia who make an investment in fixed assets in a minimum amount of:

- € 50,000 and with the opening of at least 3 new jobs for micro-entrepreneurs
- € 150,000 and with the opening of at least 5 new jobs for small, medium and large entrepreneurs
- € 50,000 and under the condition of opening at least 10 new jobs for information and communication systems and software development centers

Initial investment support is calculated as a percentage of the value of the investment, which is determined on the basis of the justified investment costs. The eligible investment costs are:

- material (value of property / buildings and equipment / machinery) and intangible assets (patents, licenses, know-how), or
- 2 years gross salary

The minimum keeping period of the investment and job openings associated with the investment is 5 years for large entrepreneurs, and 3 years for small and medium-sized entrepreneurs, but cannot be shorter than the period of use of incentive measures.

## **1.2. Important: Incentive Measures for Realization of Investment Projects**

The incentive measures for investment projects in the Republic of Croatia are regulated by the Investment Promotion Act (Official Gazette, No. 102/15, 25/18) and refer to investment projects in:

- production and processing activities,
- development and innovation activities,
- business support activities and
- high value-added service activities.

Accordingly, to all investors investing in production and processing activities, development and innovation activities, business support activities and high-value-added service activities, the Republic of Croatia offers support and the most attractive is tax relief. In practice, this means paying a lower rate or being exempted from paying taxes on profits.

When talking about investments and investment activities, it is necessary to analyze the very notion of investment. Investment is defined as an investment in fixed assets (material and immaterial) entered into the ownership of incentive measures holder (minimum amount of EUR 150,000 or EUR 50,000 for micro-entrepreneurs), relating to the establishment of a new company, expansion of the existing one or modernization or improvement of the business process. For example, in relation to real estate, the standard value or the base is the value of real estate / building and equipment / machinery (standard base). In the transport sector, the costs of purchasing transport equipment (movable property) cannot be included in eligible investment costs (standard base). The eligible investment costs will not include land, formerly built buildings / facilities and previously used equipment / machinery.

Under the terms investment and eligible investment costs, certain categories of intangible investments (patents, licenses, know-how) may be covered up to a limit of 50% of the standard base. Intangible assets that represent eligible investment costs must meet the following conditions:

- must be used solely in the company,
- must be considered as assets with the option of write-offs (amortizable assets),
- must be purchased by third parties under market conditions, excluding related entrepreneurs,
- must be included in the assets of the incentive measures holder, i.e. must be included in the balance sheet of the incentive measures holder for at least five years.

Investment also means the creation of new jobs related to the investment, and the standard basis for this investment is calculated as a gross salary over a two-year period.

The promotion of investments in the Republic of Croatia in the sense of the applicable Investment Promotion Act is an investment aid and incentive measures system for timely

realization of the necessary investment activities and the manner and deadlines of fulfilment of all necessary investment activities are determined, with a view to achieving a successful and timely realization of the investment project in the territory of the Republic of Croatia.

With regard to support, a variety of opportunities for entrepreneurs has been elaborated, relating to:

1. tax support for micro-entrepreneurs
2. tax support for small, medium and large entrepreneurs
3. support for eligible costs of new jobs related to the investment project
4. support for eligible training costs related to the investment project
5. support for:
  - a. development and innovation activities
  - b. business support activities and
  - c. high value-added services activities
6. support for capital expenditure of the investment project
7. support for labor intensive investment projects
8. support for investment projects through the economic activation of inactive assets owned by the Republic of Croatia

### 1.2.1. Tax Support

Tax support for micro-entrepreneurs is a reduction of the profit tax rate by 50% of the prescribed rate over a period of up to five years, under the condition of a minimum investment of EUR 50,000 in long-term assets and the opening of at least 3 new jobs related to the investment project, within the period of one year from the beginning of the investment.

Tax support for small and medium-sized and large enterprises is included in the reduction of the tax rate of 50-100% of the prescribed rate over a period of 10 years, with the requirement of investment in long-term assets and the creation of new jobs related to the investment project in a three-year realization period of the project. The reduction in the tax rate depends on the amount of investment and the number of new jobs.

The prescribed profit tax rate in the Republic of Croatia is 18%, which means that, based on the Investment Promotion Act, the income tax can be paid at a lower rate of 9% or 4.5%, i.e. it is possible to be fully exempted and not to pay the profit tax when the whole amount of tax represents state aid.

TAX SUPPORT				
Amount of investment	Minimum number of new jobs	Profit tax reduction	Maximum period of use	Minimum period of investment and job keeping
≥ 50.000 €	3	50%	5 years	3 years
150.000 – 1 mil. €	5	50%	10 years	5 years for large entrepreneurs/ 3 years for SME



1 – 3 mil. €	10	75%	10 years	5 years for large entrepreneurs / 3 years for SME
over 3 mil. €	15	100%	10 years	5 years for large entrepreneurs/ 3 years for SME

Amount of investment (€ mil.)	Number of new employees	Period (years)	Period of keeping new jobs (years)	Profit tax reduction
0.15 -1 (0.05-1 for micro and for centers for the development of information and communication systems and software)	5 (3 for micro, 10 for centers for the development of information and communication systems and software)	10 (5 for micro)	3 (SME), 5 (large)	50%
1-3	10	10	3 (SME), 5 (large)	75%
>3	15	10	3 (SME), 5 (large)	100%

### 1.2.2. Workplace Support

Non-refundable grants for eligible costs of new jobs related to the investment project are in the amount of 10 to 30% of the total cost of two-year salary (gross 2), i.e. max. from 3,000 to 9,000 euros per new job, depending on the unemployment rate in the county where the investment project is realized.

Unemployment rate by counties	Incentive measures for eligible costs of opening up new jobs *	Incentive measures for development and innovation activities	Incentive measures for business support activities and activities of high-value added services
<10%	10% (max. € 3,000) for employing groups of persons prescribed by Article 9, paragraph 3 of Regulation *	+50% (1,500 €)	+25% (750 €)
	4% (max. 1,200 €) for employing other persons	+50% (600 €)	+25% (300 €)
10-20%	20% (max. € 6,000) for employing groups of persons prescribed by Article 9, paragraph 3 of Regulation *	+50% (3,000 €)	+25% (1,500 €)

	8% (max. 2,400 €) for employing other persons	+50% (1,200 €)	+25% (600 €)
>20%	up to 30% (max. 9,000 €)	+50% (4,500 €)	+25% (2,250 €)
	12% (max. 3,600 €) for employing other persons	+50 % (1,800 €)	+25% (900 €)

\* Article 9 paragraph 3 of the Investment Promotion Decree (OG, 31/16) provides for incentive measures for the employment of an unemployed person who had been registered for at least three months with the Croatian Employment Service prior to the conclusion of an employment contract with the incentive measure holder; or for the employment of a person who is being employed for the first time and it is a person without occupation, a person of auxiliary occupation and vocational occupations, up to 25 years of age, without being registered in the records of the unemployed; or for the employment of a person who is being employed for the first time, and has obtained secondary, higher or high education qualifications, up to 29 years of age, without being registered in the register of unemployed with the Croatian Employment Service; or for the employment of a person up to 29 years of age registered in the register of the unemployed with the Croatian Employment Service within 90 days of graduation, earning a vocation after the completion of a secondary education or a person without occupation after the completion of an elementary education; or for the employment of a person whose employment contract has been canceled due to the opening of bankruptcy proceedings.

### 1.2.3. Support For the Training of Workers

The intensity of support for eligible training costs for workers in new workplaces related to the investment project does not exceed 50% of the eligible training costs and can be increased by up to 70% as follows:

- 10% if training is done for disabled workers
- 10% if the grant is awarded to a medium-sized entrepreneur
- 20% if the grant is awarded to a small and micro-entrepreneur

The amount of non-refundable grants for training may amount up to 50% of non-refundable grants for the creation of new jobs related to the investment.

It cannot exceed the maximum intensity as follows:

Up to 50% of eligible training costs **	+ 10% for the training of disabled workers *	+ 10% if support is granted to a medium-sized entrepreneur *	+ 20% if grants are awarded to small and micro entrepreneurs *
-----------------------------------------	----------------------------------------------	--------------------------------------------------------------	----------------------------------------------------------------

\* must not exceed 70% of the eligible training costs, nor 50% of the amount of non-refundable subsidies for the creation of new jobs related to the investment

\*\* Eligible training costs are the costs of the lecturers, for the hours during which the lecturers participated in the training; business-related costs associated with the lecturers and trainees, directly related to the training project, such as travel costs, material and consumables costs directly related to the project, depreciation of tools and equipment, if used exclusively for training projects; the costs of consultancy services related to the training project; training staff

costs and general indirect costs (administrative costs, rent, utilities) for the hours that the trainees spend in a training. Accommodation costs are excluded. Grants are not awarded for the training that entrepreneurs carry out to ensure compliance with compulsory national training standards. In cases where the support involves both forms of training, specific and general, i.e. in cases where the special and general character of the training cannot be separated, the maximum intensity calculation for the special training will be applied.

#### **1.2.4. Support for Development and Innovation Activities, Business Support Activities and High Value Added Services Activities**

For investments in development and innovation activities, additional support for new job creation costs (up to 50%) is approved for investment in activities that affect the development of new and significantly improve existing products, production batches, processes and technologies. Grants for the purchase of equipment / machinery up to 20% of eligible costs may be granted for investment in development and innovation activities, up to a maximum of EUR 0.5 million, provided that tangible assets are high technology.

For investments in business support activities, additional support is awarded for job creation costs (25% increase) for investments related to customer relations centers, separated business activities centers, logistics and distribution centers in production and processing activities, and information and communication systems and software development centers. Business support activities specifically refer to:

- Customer Relations Centers - all forms of call centers, multimedia contact centers and other types of contact centers with customers / clients focused on technical support and customer / client problem-solving.
- Centers of separate business activities: focusing on the separation and concentration of business activities such as finance, accounting, marketing, product design, audio-visual activity, human resource development and information technology development.
- Logistics and distribution centers: aimed at the establishment and construction of high-tech logistic and distribution centers that enable: intermodal transport of goods, warehousing, packaging and handling of goods aimed at a significant improvement of logistics and distribution operations within business processes and the delivery of goods.
- Information and communication systems and software development centers: development and application of information systems, separation of information systems management, development of telecommunication-network operating centers and development and application of new software solutions.

For investments in **high-value-added services activities**, additional grants for job creation costs are approved (25% increase) for investments in projects, e.g. in the tourism sector (such as projects related to accommodation facilities: hotel, aparthotel, tourist village or a camping site with 4 or more stars category, health, congress, nautical or cultural tourism, as well as entertainment and recreational centers). **The activities of high value-added services are related to:**

- Creative services activities: activities in the field of architecture, design, various forms of media communication, advertising, publishing, culture, creative industries and other activities in the field of art.
- Catering and tourist services activities are:
  - projects of catering and tourist facilities for accommodation, categories four or five stars, types: hotel, aparthotel, tourist village and camps
  - projects of catering and tourist facilities - hotel heritage and other types of accommodation facilities created by the renovation of the cultural and historical heritage with a mandatory delivery of conservation conditions of reconstruction
  - projects of additional amenities of all the above-mentioned types of accommodation facilities
  - projects of health, congress, nautical, cultural tourism, golf tourism, entertainment and / or recreational centers and parks, tourism and ecological projects and other innovative projects in high-value tourism.
- Industrial engineering services activities.

In addition to tourism projects, there are activities of creative services (activities in the field of architecture, design, promotion and other activities in the field of art), as well as activities of management, advisory, educational services and activities of industrial engineering services.

Development and innovation activities that affect the development of new and significantly improve existing products, production batches and processes and manufacturing technologies. For investments in technological development and innovation activities, grants will be approved for the purchase of equipment / machinery up to 20% of the actual eligible costs of equipment / machinery and up to a maximum of HRK 0.5m equivalent, provided that the equipment /machinery purchased must be of high technology.

### 1.2.5. Support for Capital Costs of Investment Project

Support for capital costs of the investment project is approved for production and processing activities, for investments in fixed assets of at least EUR 5 million, under the condition of opening at least 50 new jobs. The condition is that the share of investment in machinery / equipment amounts to at least 40% of the total value of the investment project and at least 50% of the purchased machinery / equipment must be high technology equipment. These non-refundable grants in max. of 0.5 or 1 million euros, depend on the unemployment rate in the county where the investment project is being realized.

<b>SUPPORT FOR CAPITAL COSTS OF INVESTMENT PROJECT</b>			
<b>Amount of investment</b>	<b>New jobs</b>	<b>County unemployment rate</b>	<b>Amount of support (percentage of capital costs)</b>
<b>≥ 5 mil. €</b>	<b>≥ 50</b>	<b>10-20%</b>	<b>10%, i.e. max. up to 0,5 mil. €</b>
		<b>over 20%</b>	<b>20%, i.e. max. up to 1 mil. €</b>

The conditions for exercising the right to incentive measures for capital costs of an investment project: investment in fixed assets of at least EUR 5 million with the requirement of opening at least 50 new jobs.

<b>County unemployment rate</b>	<b>Incentives for capital costs</b>

10-20%	<p>Non-refundable grants in the amount of 10% of the eligible investment costs for:</p> <ul style="list-style-type: none"> <li>• costs of building a new factory, an industrial plant or a tourist facility,</li> <li>• costs of purchasing new machinery or production equipment, (up to EUR 0.5 million, provided that the investment ratio in machinery / equipment is at least 40% of the total value of the investment and at least 50% of the purchased machinery / equipment must be high technology equipment)</li> </ul>
>20%	<p>Non-refundable support in the amount of 20% eligible investment costs for:</p> <ul style="list-style-type: none"> <li>• costs of building a new factory, an industrial plant or a tourist facility,</li> <li>• costs of buying new machinery or production equipment, (up to EUR 1 million, provided that the ratio of investments in machinery / equipment is at least 40% of the total value of the investment and at least 50% of the purchased machinery / equipment must be high technology equipment)</li> </ul>

### 1.26. Support for Labor-intensive Investment Projects

Support for labor-intensive investment projects is additional support for job opening costs for entrepreneurs who, related to the approved investment project, employ a minimum of 100 or more persons within a period of 3 years after the beginning of the investment.

<b>SUPPORT FOR LABOR-INTENSIVE INVESTMENT PROJECTS</b>		
<b>Number of new jobs</b>		
<b>≥ 100</b>	<b>≥ 300</b>	<b>≥ 500</b>
<b>The increase of support for new jobs creation:</b>		
<b>+ 25%</b>	<b>+ 50%</b>	<b>+ 100%</b>

<b>Number of new jobs</b>	<b>Increase of support for new jobs creation:</b>
100 and more	25%
300 and more	50%
500 and more	100%

### 1.2.7. Support for Investment Projects Through the Economic Activation of Inactive Assets Owned by the Republic of Croatia

Inactive assets consist of land and / or buildings owned by the Republic of Croatia, administered by the Ministry of State Property, which is not in operation and on which no economic activity is performed.

<b>Amount of investment (€ mil.)</b>	<b>Number of new employees</b>	<b>Obligatory investing in inactive assets</b>	<b>Support</b>	<b>Lease obtaining procedure</b>
3	15	increase in the value of inactive assets by 50% within 3 years from leasing property in relation to the estimated value of the asset at the time of lease	free lease of inactive assets up to 10 years * from the beginning of the investment	for investing in the JLS (local self-government units) of the lower development index (I-IV) - without any additional conditions
				for investing in JLS (local self-government units) of higher development index (V-VIII.) - after three rounds of public tender for the sale of assets

\* After the lease expires or the maximum support intensity has been reached, the beneficiary of the support may conclude a Purchase Agreement regarding the asset with the Ministry of State Property.

According to the application procedure for the use of incentive measures under the Investment Promotion Act (OG 102/15, 25/18), an entrepreneur aiming to acquire the status of incentive measures holder is obliged to submit an Application for the use of incentive measures in the prescribed forms to the Ministry of Economy, Entrepreneurship and Crafts.

### **1.2.8. Investment Promotion Decree**

The implementing instrument of this Act is the Investment Promotion Decree (OG 31/16) which prescribes the form and mandatory contents of the Applications for granting beneficiary status. It prescribes additional forms, the procedure for applying, approving and using the support, and the mandatory contents of the annual report on the execution of the investment project and the use of grants. According to the prescribed procedure, an entrepreneur wishing to acquire a status of a beneficiary of investment support is required to submit the Application prior to the commencement of investment to the Ministry of Economy, Entrepreneurship and Crafts.

### **1.2.9. Application for the Approval of the Investment Support Beneficiary Status**

Mandatory attachments

- application forms
- collective statement
- business plan for 5 years with the projection of financial statements (balance sheet and profit and loss account)
- building permit or certificate of the main project
- for craftsmen – a statement on the profit tax system entry

The application is submitted to the Ministry of Economy, Entrepreneurship and Craft before the start of the investment. The certification of the holder of incentive measures status is issued within 60 days.

Example of the calculation of state support in relation to the type of investment:

INVESTMENT TYPE	Production and processing activities
Standard base - tangible investments	Construction of real estate / buildings 1.000.000,00 EUR Purchase of equipment / machinery 1.000.000,00 EUR
Intangible investments	Amount of intangible investments 0,00 EUR
Opening up new jobs	Gross salaries x 24 months 432.000,00 EUR
Eligible cost of investment	2.000.000,00 EUR
County	Zadar County
Company size	Medium
Planned number of new jobs	30
Amount of costs for the general training program	0,00 EUR
Amount of costs for special training program	0,00 EUR
Direct incentives	Support for eligible costs of opening up new jobs 129.600,00 EUR Support for eligible training costs 0,00 EUR
Total amount of direct incentives	129.600,00 EUR
Indirect incentives	Customs rate 0% Profit Tax Rate 5%
Total amount of indirect incentives	

	870.400.00 EUR
<b>Maximum intensity of incentives</b>	1.000.000,00 EUR

### 1.3. Experts' Tips

In order for an investor to know how much he is entitled to support, it is necessary to know how to calculate it in relation to the set variables. The total investment support is calculated as a percentage of the value of the investment, i.e. it is determined on the basis of the eligible costs of investing in tangible and intangible assets or on the basis of the eligible costs of the opening up of new jobs related to the investment (wage cost). The maximum support intensity, established by the regional support map, amounts to 25%, 35% or 45% of total investment costs, depending on whether the project investment is realized by a small, medium or large entrepreneur (a company or craft that is a taxpayer).

The minimum keeping period of investment and new jobs opened related to the investment is 5 years for large entrepreneurs and 3 years for small and medium-sized businesses, but may not be shorter than the period of use of the grant.

When calculating the maximum intensity of the support, it is necessary to follow the classification of entrepreneurs in accordance with Annex I to Commission Regulation (EU) No. 651/2014 of June 17, 2014

Category of entrepreneur*	Number of employees	Annual revenue	or	Total assets
Large	≥ 250	> 50 million €	>	43 million €
Medium	< 250	≤ 50 million €	≤	43 million €
Small	< 50	≤ 10 million €	≤	10 million €
Micro	< 10	≤ 2 million €	≤	2 million €

\*When classifying an entrepreneur, affiliated companies and partnerships related to him should also be taken into account

### 1.4. Additional Sources

- Investment programs in the Republic of Croatia <https://www.mingo.hr/page/kategorija/investicije>
- Guide to Investment Promotion Act, <https://www.mingo.hr/page/kategorija/vodic-kroz-zakon-o-poticanju-investicija>
- Guide for Investors, <https://www.mingo.hr/page/kategorija/vodic-za-ulagace>
- Incentives Calculator, <http://www.aik-invest.hr/investicijski-vodic/kalkulator-poticaja/>



- Novak Branko: Decision Making in Financial Management. Faculty of Economics in Osijek, Osijek, 2002.
- Ross, Westerfield, Jordan; Fundamentals of Corporate Finance, McGraw Hill, Boston, 2003.
- Berman, K, Knight, J. Financial Intelligence, Cash is king, Harvard Business School Press, Boston, 2006.
- Hale, R.H., Credit Analysis: A Complete Guide, John Wiley & Sons, New York, 1983.

## 1.5. Exercise and Questions

1. Incentive measures may be used by entrepreneurs registered in the Republic of Croatia who make an investment in long-term assets in a minimum amount of:

- a) 50,000 € and with the opening of at least 3 new jobs for micro-entrepreneurs
- b) 20,000 € and with the opening of at least 2 new jobs for micro-entrepreneurs
- c) 10,000 € with the opening of at least 1 new job for micro-entrepreneurs
- d) 40,000 € and with the opening of at least 4 new jobs for micro-entrepreneurs

2. Support for capital costs of the investment project is granted for production and processing activities, namely for investment in fixed assets of at least EUR 5 million, with the requirement of opening:

- a) at least 20 new jobs
- b) at least 30 new jobs
- c) at least 40 new jobs
- d) at least 50 new jobs

### 3. Exercise

The investor comes with a project of direct foreign investment, through which he wants to invest in the EUR 1 million factory purchase with the opening of 5 new jobs. Explain to the investor his options to receive state incentives.

Answer

Taking into account the investment consisting of the purchase of a new factory in the amount of EUR 1 million with the opening of 5 new jobs, the entrepreneur is entitled to a 50% reduction in the tax rate of the profit tax that he is entitled to use for a period of 10 years and with the keeping jobs for 5 years for large entrepreneurs, i.e. 3 years for SMEs.

## 2. EU funds (including financing programs related to the establishment / further development of business through European Union funds)

### 2.1. Theoretical Framework

The European Union's public policies are the basis for the strategic orientation of the Member States' and candidate countries' policies, and they are the basis for determining goals whose achieving will be fostered through EU funds. EU funds are the money of European citizens which, in accordance with certain rules and procedures, is assigned to various beneficiaries for the implementation of projects which should contribute to the achieving of the above-mentioned key public EU policies. European funds are financial instruments for the implementation of a particular European Union's public policy in the Member States.

### 2.2. Important: European Structural and Investment Funds

For the use of the European Structural and Investment Funds (ESI Funds) a strategic framework is of key importance because the money is directed towards achieving the goals identified within a given strategic framework. The strategic framework is a set of public

policies (strategies, regulations, acts, bylaws, etc.) that contain goals and guidelines for the development of the European Union and the certain Member States, as well as the priorities to be funded. The EU's key strategic framework for the period 2014-2020 includes Cohesion Policy, the Europe 2020 Strategy and some sectoral public policies.

At the level of the Republic of Croatia, the strategic framework for the use of ESI Funds is defined by the Agreement on Partnership, Operational Programmes, The Common National Rules and the Act on the Establishment of an Institutional Framework for the Use of ESI Funds in the Republic of Croatia for the period 2014-2020, as well as by the decrees governing the competence of individual bodies for each ESI instrument.

The Partnership Agreement establishes a national strategy for the use of European Structural and Investment Funds and describes in what way the Republic of Croatia will fulfil the common goals of the Europe 2020 Strategy with the help of EU budget funds.

Operational programmes are documents describing and elaborating in detail the measures and activities for the effective implementation and use of ESI funds.

The Republic of Croatia has adopted four such programs, and the activities within each operational program are funded from the appropriate ESI Fund (The Cohesion Fund, European Regional Development Fund, European Social Fund, European Agricultural Fund for Rural Development, European Fund for Maritime Affairs and Fisheries).

<b>ESI Fund</b>	<b>Allocation (EUR)</b>
Cohesion Fund	2.559.545.971
European Regional Development Fund (ERDF)	4.321.499.588
European Social Fund (ESF)	1.516.033.073
European Agricultural Fund for Rural Development (EAFRD)	2.026.222.500
European Fund for Maritime Affairs and Fisheries (EMFF)	252.643.138
<b>Total</b>	<b>10.675.944.270</b>

Allocation of ESI Funds for the Republic of Croatia 2014-2020

One of the most important public policies of the European Union is the Cohesion Policy, for which 376 billion euros have been allocated in the financial period 2014-2020. The main purpose of the cohesion policy is to reduce the significant economic, social and territorial differences existing between European Union regions, but also to strengthen the global competitiveness of the European economy. The cohesion policy of the European Union is funded from three main funds, and two more funds are available in this financial perspective. The European Regional Development Fund and the European Social Fund are also known as the Structural Funds, and all five funds share the common name – the European Structural and Investment Funds (ESI Funds). The central coordinating body of the Republic of Croatia responsible for managing ESI funds is the Ministry of Regional Development and European Union Funds. The official websites on which tenders for funding from EU funds are published are:

- For ERDF: <https://efondovi.mrrfeu.hr/MISCMS/?op=kk&status=Otvoren>
- For ESF: <http://www.esf.hr/>
- For EAFRD : <https://www.apprrr.hr/>
- For EMFF: <https://euribarstvo.hr/>

### 2.2.1. The Cohesion Fund

The Cohesion Fund refers to the EU Member States whose gross national income per capita is less than 90% of the EU average and it finances projects in the area of transport and the environment.

The Fund may finance activities related to:

- Trans-European transport networks and Pan-European corridors;
- transport infrastructure that contributes to environmentally sustainable urban and public transport, interoperability of transport networks across the EU;
- environmental infrastructure in order to apply EU environmental standards;
- the efficient use of energy and renewable energy sources.

Beneficiaries within the Cohesion Fund are mainly public authorities but also the business sector (through participation in public procurement procedures for delivering goods and services, and performing works such as various studies, construction works and the like).

### 2.2.2. The European Regional Development Fund

The Fund's purpose is to invest in production investments with the aim of job creation, infrastructure investments, local development and the development of small and medium-sized enterprises.

The Fund may finance the activities related to:

- productive investments that contribute to the creation and preservation of sustainable jobs, through direct support for investment in small and medium-sized enterprises
- investing in infrastructure to provide basic services to citizens in the areas of energy, environment, transport and information and communication technologies
- investment in social, health and education infrastructure
- development of the internal potential by supporting the local and regional development and research and innovation

The European Regional Development Fund beneficiaries are research centers, the local and regional authorities, schools, corporations, training centers, state administration, small and medium-sized enterprises, universities, associations. Apart from them, funds will also be available to public bodies, some private sector organizations (especially small businesses), non-governmental organizations, volunteer organizations. Foreign companies based in the region covered by the relevant Operational programme may also apply on the condition that they comply with the European public procurement rules. Given that ERDF tenders in large percentages are intended for greater competitiveness and SMEs development, an example of a tender published in the eFonds system is provided below.

IMPROVING COMPETITIVENESS AND EFFICIENCY OF SMEs THROUGH INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

**Call Code:** KK.03.2.1.18

**Call version:** 2

**Fund:** European Fund for Regional Development

**Operational programme:** Competitiveness and Cohesion 2014 - 2020

**Tender type:** Open call

**Status:** Open

**Date of publication:** 09.07.2018 15:40:10

**Date of receipt of project applications:** 28.08.2018 11:00:00

**Deadline for submitting project applications:** 29.06.2020 00:00:00

**Competent authority:** MINISTRY OF ECONOMY, ENTREPRENEURSHIP AND CRAFTS

**Purpose of this Call:** Strengthening the market position, increasing competitiveness and efficiency of SMEs' business by applying information and communication technology as well as supporting the development of information society in the Republic of Croatia.

**Subject of this Call:** This Call encourages SMEs to apply information and communication technology to optimize business processes, integrate business functions, to ensure efficient organization of workflow, improve customer and supplier interaction and improve the market position of the company.

**Minimum amount of grants:** 80.000,00 kn

**Maximum amount of grants:** 1.000.000,00 kn

**Eligible Applicants within this Call:** micro-entrepreneurs, small entrepreneurs, medium entrepreneurs

**Areas:** small and medium entrepreneurship

**Summary:** This Call will contribute to solving the identified weaknesses in SMEs related to the inadequate application of information and communication technology solutions in business processes with a view to increasing their competitiveness. By granting small-value support, SMEs are encouraged to apply information and communication technology to optimize business processes, integrate business functions, organize workflow efficiently, improve customer and supplier interaction, and improve the market position of a company.

**Forms** (links are in Croatian):

- [Obrazac 2. Izjava o usklađenosti s UzP\\_1.izmjena.docx](#)
- [Obrazac 3. Skupna izjava\\_1.izmjena.xlsx](#)

**Attachments** (links are in Croatian):

- [Prilog 1. Opći uvjeti\\_1.izmjena.pdf](#)
- [Prilog 2. Ugovor\\_1.izmjena.pdf](#)
- [Prilog 3 Postupak dodjele\\_1.izmjena.pdf](#)
- [Prilog 4. Postupci nabave za NOJN\\_1.izmjena.pdf](#)
- [Prilog 5. Plan nabave\\_1.izmjena.pdf](#)
- [Prilog 6. Zahtjev za predujam\\_1.izmjena.pdf](#)
- [Prilog 7. Zahtjev za nadoknadom sredstava\\_1.izmjena.xlsx](#)
- [Prilog 8. Završno izvješće i KL\\_1.izmjena.pdf](#)
- [Prilog 9. Izvješće nakon provedbe i KL\\_1.izmjena.pdf](#)
- [Prilog 10. Izjava prijavitelja o odricanju prava na prigovor\\_1.izmjena.pdf](#)
- [Prilog 11. Pravila o financijskim korekcijama\\_1.izmjena.pdf](#)
- [Prilog 12. Opći uvjeti korištenja sustava\\_eFondovi\\_1.izmjena.pdf](#)
- [Prilog 13. Upute za popunjavanje IKT deminimis\\_1.izmjena.pdf](#)

- [Prilog 14. Izjava o korištenim potporama male vrijednosti\\_1.izmjena.pdf](#)

**Guidelines for Applicants** (links are in Croatian):

- [UzP\\_IKT\\_dm\\_1\\_izmjena.pdf](#)
- [Sažetak poziva IKT dm\\_1izmjena.pdf](#)
- [UzP\\_IKT\\_dm\\_objava\\_9\\_7\\_18.zip](#)

**Questions and Answers** (links are in Croatian):

- [P20 pitanja i odgovori v1.pdf](#)
- [P20 pitanja i odgovori v2.pdf](#)
- [P20 Pitanja i odgovori v3.pdf](#)
- [P20 Pitanja i odgovori v4.pdf](#)
- [P20 pitanja i odgovori v5.pdf](#)
- [P20 Pitanja i odgovori v6.pdf](#)

### 2.2.3. The European Social Fund

The purpose of the European Social Fund is to encourage entrepreneurship and help workers to find better jobs. Therefore, the Fund beneficiaries are public administration, workers' and employers' associations, non-governmental organizations, charities and companies.

The Fund may finance activities related to:

- investing in human resources (lifelong learning, innovation and entrepreneurship, managerial skills training, vocational guidance, training of trainers in different professional areas),
- encouraging unemployed people to join the active workforce (financing of seminars, training),
- adaptation to economic changes (more productive labor organization, targeting knowledge and skills, employment and training),
- access to the labor market (modernization and strengthening of institutions, active employment measures),
- social inclusion (fight against discrimination, employment, assistance and services) and
- support of employment services (networking with research centers, elaboration and implementation of studies on needs for a specific workforce profile).

### 2.2.4. European Agricultural Fund for Rural Development

The purpose of the European Agricultural Fund for Rural Development is to improve the management and control over rural development policy; investment in the establishment of the ecological and territorial balance, protection of climatic conditions and the introduction of innovations into the agricultural sector.

The Fund may finance activities related to:

- encouraging the transfer of knowledge and innovation in agriculture, forestry and rural areas
- strengthening the competitiveness of all types of agriculture and increasing the sustainability of the economy

- promotion of the organization of the food chain and risk management in agriculture
- restoration, conservation and promotion of ecological dependence on agriculture and forestry
- promotion of the resource efficiency and shifting of support towards low levels of carbon dioxide and climate-friendly agriculture, food and forestry
- promotion of a social inclusion, poverty reduction and economic development of rural areas

The beneficiaries of the European Agricultural Fund for Rural Development are agricultural companies, agricultural organizations, associations and trade unions, environmental protection organizations, organizations providing services in community culture, including media, women's associations, farmers, forestry workers and youth.

### **2.2.5. European Fund for Maritime Affairs and Fisheries**

The purpose of the Fund is to provide resources to the fishing industry and coastal communities with a view to adapting them to the changed conditions in the sector and achieving economic and environmental sustainability. The Fund is designed to provide sustainable fishery and aquaculture (fish, shellfish and underwater plants).

The Fund may finance activities related to:

- sustainable development of fishery, aquaculture and fishing areas
- compensation for additional costs in the most distant regions for fishery products and aquaculture
- integrated maritime policy and accompanying measures
- beneficiaries: economic entities and associations in the EU Member States.

### **2.3. Experts' Tips**

For every investor, it is important to know what opportunities exist for financing his own business. EU funds are available to entrepreneurs who must first identify funding opportunities, which means that the information should be timely provided. Entrepreneurs should certainly take advantage of the opportunities and potentials of EU Funds and look for tenders published on relevant websites.

When applying for a project, it is important to be creative, but in terms of presenting a project idea in a way that it is new, innovative and different. It is necessary to check whether the project idea is applicable to a particular tender. Also, when submitting a project application, the attention should be paid to the following items:

- the indicative plans for the publication of tenders according to the Operational Programmes should be followed
- the project documentation must be obtained on time (e.g. building permits, the main project, execution project, tax administration certificates, creditworthiness etc.)
- project applications must comply with European and national strategies
- project applications must be consistent with the purpose of the tender
- the goals should be simply structured and written in the infinitive form

- the project must comply with the rules of the Call for proposals
- the project must be concretized in such a way that the investor has to know how much of equipment, employees and other resources he needs for the realization of the project
- the project must provide for sustainability measures
- in case of large investments, it is advisable to hire consultants

## 2.4. Additional Sources

Structural funds <https://strukturnifondovi.hr/>

A Cost-Benefit Analysis Guide  
 ec.europa.eu/regional\_policy/sources/docgener/studies/pdf/cba\_guide.pdf  
 List of open tenders, <https://strukturnifondovi.hr/natjecaji/>



## 2.5. Questions and Exercise

1. The European Structural and Investment Funds System consists of:

- a) ERDF, ESF
- b) EMFF, EAFRD
- c) CS, ERDF, ESF, EMFF, EAFRD
- d) CF, ERDF, ESF

2. The central coordinating body of the Republic of Croatia responsible for managing the ESI Funds is:

- a) Ministry of Economy, Entrepreneurship and Crafts
- b) Ministry of Foreign and European Affairs
- c) Ministry of Regional Development and European Union Funds
- d) Ministry of Science and Education

3. Exercise

On the official websites of the European Regional Development Fund in the Republic of Croatia, find currently valid Operational programmes in the Republic of Croatia for the period 2014-2020.

Answer

## 3. State and Commercial Banks Loans

### 3.1. Theoretical Framework

Business activities of entrepreneurs can be indirectly financed through HBOR (Croatian Bank for Reconstruction and Development) and commercial banks.

When talking about HBOR, it is a state-owned bank that is 100% owned by the Republic of Croatia, which has a business portfolio that is primarily intended for the economic growth of all companies in the Republic of Croatia. In relation to investment loans through commercial banks, the entrepreneurial initiative is funded under the market conditions.

For example, in the Republic of Croatia, commercial banks offer to entrepreneurs the following bank loans: long-term investment loans, leasing financing and special lending programs. For each of the above-mentioned funding programme, the entrepreneur must contact the business bank directly and to discuss the loan terms with it. However, commercial banks special financing programmes are additional services from their business portfolio, and are related to the realization of cooperation with:

- Croatian Bank for Reconstruction and Development
- international financial institutions
- ministries and local and regional self-government units
- Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO)
- ESIF loans for growth and development

## 3.2. Important: Croatian Bank for Reconstruction and Development

HBOR is a development and export bank established with the purpose of lending the reconstruction and development of the Croatian economy. It is a bank whose founder and a 100% owner is the Republic of Croatia. In its business portfolio, the Bank offers to entrepreneurs various services and loans with one of the most favorable interest rates in the Republic of Croatia, regardless of whether the entrepreneur is looking for an additional financing of his investment, he is in the need for working capital, or he is in the restructuring process or in an investment process co-financed from EU funds.

### 3.2.1. HBOR Programmes for Entrepreneurs

Through the Croatian Bank for Reconstruction and Development, entrepreneurs have access to the following programmes:

- lending through commercial banks

Documented loan applications are submitted to business banks that have contracted with HBOR to implement the Programme. The list of commercial banks is an integral part of the Loan Programme. Depending on the decision of the competent authority of HBOR, a commercial bank and HBOR conclude a loan agreement for the end user. Based on the loan agreement between the commercial bank and HBOR, the commercial bank concludes a loan agreement with the end user of the loan. The banks participating in the above-mentioned Programme are:

Addiko Bank d.d.	Partner banka d.d.
Banka Kovanica d.d.	Podravska banka d.d.
Croatia banka d.d.	Primorska banka d.d.
Erste & Steiermärkische bank d.d.	Privredna banka Zagreb d.d.
Hrvatska poštanska banka d.d.	Raiffeisenbank Austria d.d.
Istarska kreditna banka d.d.	Samoborska banka d.d.
J&T banka d.d.	Sberbank d.d.
Karlovačka banka d.d.	Slatinska banka d.d.
Kentbank d.d.	Splitska banka d.d.
Kreditna banka Zagreb d.d.	Veneto banka d.d.
OTP banka Hrvatska d.d.	Zagrebačka banka d.d.

- direct lending

Documented loan applications are sent directly to HBOR. Depending on the decision of the competent authority of HBOR, a loan agreement is concluded directly with the loan user. Depending on the available funds of the HBOR or on the deadlines of the loan method, including the related contractual documentation, the Programme may also be realized as:

- risk-sharing model lending

Documented loan applications are submitted to commercial banks with which HBOR has also contracted to cooperate on the implementation of the Risk-Sharing Programme. The term, purpose and the method of lending, as well as other specific provisions of lending with risk sharing with commercial banks, are prescribed in the framework of the implementation and

contractual documentation. Information on the risk-sharing model with the list of commercial banks is available on the HBOR website.

INVESTMENT HBOR LOANS are classified according to the following needs of entrepreneurs:

DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES  
Amount of loan: up to 8 million kunas  
Repayment period: up to 12 years

ESIF LOANS FOR GROWTH AND DEVELOPMENT  
Loan amount: up to EUR 3 million (EUR 10 million for the tourism sector)  
Repayment period: up to 12 years (up to 17 years for the tourism sector)

TOURISM  
Loan amount: the lowest 80 thousand kunas, the highest is not limited  
Repayment period: up to 17 years

AGRICULTURE  
Loan amount: the lowest amount is 80 thousand kunas, and the highest is 3.5 million kunas  
Repayment period: up to 14 years

ESIF LOANS FOR ENERGY EFFICIENCY  
Amount of loan: the lowest amount is 100 thousand kunas and the highest is 60 million kunas

ENVIRONMENTAL PROTECTION  
Amount of loan: the lowest amount is 100 thousand kunas, and the maximum is not limited  
Repayment period: up to 14 years

ECONOMY  
Loan amount: the lowest 700 thousand kunas, the highest is not limited  
Repayment period: up to 12 years

NEW PRODUCTION:  
Loan amount: not limited  
Repayment period: up to 14 years

INFRASTRUCTURE  
Loan amount: not limited  
Repayment period: up to 15 years

SHIPPING  
Loan amount: not limited  
Repayment period: up to 12 years

ENERGY RECONSTRUCTION OF BUILDINGS  
Loan amount: not limited  
Repayment period: up to 12 years

Repayment period: up to 14 years

The following is an example of the documentation requested from entrepreneurs for the purpose of granting the loan. This example refers to the programme of lending to small and medium-sized enterprises. The applicant submits the investment documentation with the standardized application form for a loan to HBOR:

- Investment programme (for investments above 700,000 kn) or a business plan (for investments up to 700,000 kn)
- Contracts / pre-contract / letters of intent on business cooperation / product placement etc.
- Cost statements/offers/interim invoices (according to the investment structure)
- Technical documentation with relevant construction / reconstruction permits
- Documentation on other sources of funding

In addition, companies also submit the following documentation:

- Court Register Extract, with the latest revisions included
- The founding acts of the company (Articles of Association of a limited liability company, the statute of a joint stock company), last consolidated text
- Notification of classification of a business entity according to the NKD (National Classification of Activities)
- Solvency information (BON 2 / SOL 2) not older than 30 days from the date of submission of the application,
- Creditworthiness information (BON 1)
- Annual financial statements for the past two business years compiled in accordance with the Accounting Act: Balance Sheet - POD-BIL Form, Income Statement - POD-RDG Form, Additional Data - POD-DOP Form and, where applicable, Cash Flow Statement - POD Form -NTD and POD-NTI, Notes to the Financial Statements
- Quarterly Financial Statements: the Balance Sheet and Income Statement - GFI-POD Form at the end of the last quarter, if required

Note: Solvency, creditworthiness, annual and quarterly financial statements are provided if they are available in respect of the period of the prior business.

- SPNFT Questionnaires: (OBR) Questionnaire for Legal Entities (OBR) Information on Real Owners of the Applicant's Party for the loan (OBR), Table 1 and 2 - Attachment to the Data on Real Owners of the Applicant's Party - for companies, (OBR) Questionnaire for foreign politically exposed persons

### **3.3. Experts' Tips**

Every entrepreneur or investor is recommended, regardless of whether or not the bank requires a document as a mandatory documentation, to make a business plan so that the entrepreneur in one place can have all the information necessary for his business. The business plan is mostly an integral part of the loan documentation and is particularly required for beginner entrepreneurs or new clients of the bank, financially weak business entities and certain (targeted) groups of entrepreneurs such as young entrepreneurs.

When seeking a loan application, the entrepreneur or investor must understand the creditor's views. In the first place, the creditor is interested in data on the entrepreneur's former business, i.e. owner's indebtedness, on the relationship between personal property and liabilities value, on the creditworthiness of the owner and on his timeliness in settling the obligations. On the other hand, the entrepreneur must understand the financial statements, objectively evaluate the good and bad sides of the loan and, if any, explain the negative business indicators.

When introducing a business idea to a creditor, first you need to present yourself as an investor and then the investment. The presentation should be structured in a summarized, clear and precise way, while you should be prepared for further explanations and creditor's questions. When negotiating with the creditors, it is certainly necessary to provide them with the required information and to demonstrate the willingness to cooperate, as well as to understand the creditor as a partner in the realization of a business venture.

### 3.4. Additional Sources

Croatian Bank for Reconstruction and Development, <https://www.hbor.hr/>

Croatian Bank for Reconstruction and Development and EU Funds, <https://www.hbor.hr/eu-fondovi/>

### 3.5. Questions and Exercise

1. The bank in the ownership of the Republic of Croatia which offers favorable loans to entrepreneurs is:

- a. The Croatian National Bank
- b. Croatian Agency for SMEs, Innovation and Investments
- c. Croatian Bank for Reconstruction and Development
- d. Zagrebačka banka d.d.

2. The most common documentation required by banks for investment projects of less than HRK 700,000.00 is:

- |    |                    |          |
|----|--------------------|----------|
| a. | Investment         | study    |
| b. | Cost-benefit       | analysis |
| c. | Business           | plan     |
| d. | Marketing strategy |          |

3. Exercise:

In the Internet browser, find the websites of the Croatian Bank for Reconstruction and Development.

Find the conditions for lending to young entrepreneurs and make a list.

Answer:

**Sources:**

- Official websites of the Croatian Bank for Reconstruction and Development: <https://www.hbor.hr/>
- Official website of the European Structural and Investment Funds: <https://strukturnifondovi.hr/>
- Official website of the Ministry of Economy, Entrepreneurship and Crafts: <https://www.mingo.hr/page/kategorija/vodic-kroz-zakon-o-poticanju-investicija>
- Official Website of the Agency for Investments and Competitiveness: <http://www.aik-invest.hr/>

## **MODULE 5.**

### **Module 5. Labour market offer and employment conditions**

#### **Introduction**

Knowledge of labour market situation and active employment policy measures can be crucial information for attracting foreign investor's attention.

Therefore, it should be considered the fact that Croatia is part of unique European market on which free movement of workers is performed.

Except introducing foreign investor with possibilities of employment, types and procedure of employment and basic legal regulations in employer-employee relation and employer-director relation are relevant.

#### **Glossary**

Labour market - labour offer and demand

Employer - legal or natural person who employs workers

Candidate - person chosen from employer for the purpose of employment

Employee - person who signed employment contract and performs activities at employers' directions

Worker - see "Employee"

Posted worker - employee who by the employer's directions stays and works in another country

Foreign national - a person who is not Croatian citizen and it has EEA, Swiss Confederation or third country citizenship, or is a person without citizenship

EU - European Union

EEA - European Economic Area: EEA countries include EU countries and also Iceland, Liechtenstein and Norway. Switzerland is neither an EU nor EEA member but is part of the single market

EURES - network between European Commission and Public Employment Services in EEA State Members which promotes labour mobility

## **1. Labour market**

### **1.1. Overview / Theoretical Framework**

Within this unit you will learn what you, as F.D.I. advisor, should know about labour market and active employment policy in Croatia as well as the relations between entrepreneurs and labour market.

After acquiring knowledge from this Unit, you will be able to:

- track labour market trends
- apply activities regarding employer-labour market relation.

### **1.2 Introduction**

The labour market is controlled by labour offer and labour demand. Through labour market employers search and hire employees, and employees find employment.

The labour market is a term for labour market information which can access pupils, students, unemployed persons or any other beneficiaries who are in need of support in the process of making a career choice.

Since business market is opened to global competition, companies, economies and countries are confronted to bigger competition. Company's or economy's competitiveness depends on its opportunity on adjustment to market changes and possibility of latest technical and technological achievements use.

When current state of labour market in Croatia is compared with other E.U. members, it reveals unfavourable structure and unsatisfactory dynamics of change.

Croatia is ranked among the top of three, the worst Members E.U. according to the basic indicators:

- Unemployment rate;
- Employment rate;
- Population activity rate;
- Proportion of long-term unemployment;
- Proportion of very long-term unemployment;



- Average working life;
- Youth unemployment rate.

Central Bureau of Statistics collects year level of all relevant data on labour market (number of unemployed, labour market needs, participation of scarce professions, level of education of unemployed and other.)

The latest data on labour market situation are published on official web pages of Croatian Central Bureau of Statistics.

In Croatian Central Bureau of Statistics report are published data about active population regarding administrative sources and gender, index of the number of employed in legal entity based on gender and area of business activity, employed in legal entity in general and based on areas of business activity with methodological explanations.

On the Croatian Central Bureau of Statistics web pages statistical data about unemployed rate by county are published.

It is crucial for you, as a F.D.I. advisor to monitor changes on the labour market and to be well informed about the available workforce. That is very important information for foreign investor when making a decision about opening a new company, and investing in the foreign country.

### **1.3. Labour market supply and employers**

Croatian Employment Service as a state institution, except regular activities like helping unemployed people in job searching, retraining, and education, provides other services like consulting, job Ad adjustments to individual employers' needs, and selection of appropriate candidates. Employers can also use meeting facilities in Employment Service Area with no charge when having an interview with potential candidates.

When searching suitable worker employers can also use other employment agencies services. They provide services like Croatian Employment Service and most of them are specialized like agencies for seafarers' employment.

Before recommending it to the foreign investor, employment agency background should be checked as well as conditions that employer must fulfil.

When searching adequate workforce employers make job advertisement in which all data about the position, competencies, skills, and required level of education is written.

It is not obligated by law to inform Croatian Employment Service or any other state institution about vacancy, and results.

The employer can find a suitable candidate and hire him without using services of Employment Institution or other employment agency.

Job advertisement can be published in daily or weekly newspaper, web pages or in person.

Before determination of the future employees' profile and employment conditions, it is in employers' interest to know, conditions for obtaining the state or local funds for employment.

#### **1.4. Employment policies measures**

In order to decrease unemployment Government of the Republic of Croatia leads active employment policy and makes once a year MEASURE PACKET.

Active employment policies measures which stimulate:

- Employment;
- Specialization;
- Professional qualification;
- Training on workplace;
- Seasonal employment;
- Workplace preservation by employers who have difficulties in business;
- Specific group comprehension in public work programmes

have common goals:

- Decreasing unemployment rate with special focus on youth, persons over 50 years, long-term unemployed persons;
- Employment rate boost.

Financial support and aid can be diverse. It depends on employment boost: one-time non-refundable financial aid, refund of social security contributions costs in a certain percentage, in total amount, in certain time limit and other.

Employer can obtain also support in education and training programmes for his future employee. He needs to apply for it at Croatian Employment Service. In the moment of writing aid application, two basic conditions have to be fulfilled:

- Chosen candidate has to be registered as an unemployed person in Employment Service base;
- Whole companies' debt to the State must be paid (taxes, social security contributions, and other public liabilities).

Other conditions depend on active employment measures and can be checked on Employment Service and official Governmental web pages.

Regardless the aid given by Employment Service, Croatian Government stimulates employers with an exemption of social security contribution obligation for employers who hire youth under 30 years and persons for whom this is first employment. This is defined by Contribution Act.

Most cities have employment boost programmes so information on web pages from local authorities also should be tracked. Entrepreneurs can use programmes and aid on local level nevertheless if programme on the state level is used.

### **1.5. Important / Exceptions**

Active employment policy programmes can be basis for employer's business expanding.

Examples of employment boost on state and local level:

Croatian Employment Service: [\*"New employment policy measure"\*](#)

City of Opatija: [\*"Employers' boost programme"\*](#)

### **1.6. Tips from professionals**

When recruiting, employers should use the support that Croatian Employment Service and/or other employment agencies offer for candidate selection.

It is in employer's interest to use possibilities offered within active employment policy measures and Employment Office free services.

You should let your clients know of the various types of free charge support from the Employment Office.

### **1.7. Additional reading**

If you want to know more information about Labour market and the relations between entrepreneurs and labour market, see additional reading, please.

Croatian Employment Service: “*New employment policy measure*” (online). Available on: <http://www.hzz.hr/default.aspx?id=37349> (07.02.2018.)

City of Opatija: “*Employers' boost programme*” (online). Available on: <http://www.opatija.hr/hr/gospodarstvo/program-poticanja-poduzetnika/> (07.02.2018.)

Employer's job vacancy advertisement published on Croatian Employment Service web site.

Croatian employment service. “*Job market*” (online). Available on: [https://burzarada.hzz.hr/Posloprimac\\_RadnaMjesta.aspx](https://burzarada.hzz.hr/Posloprimac_RadnaMjesta.aspx) (07.02.2018.)

My Job - job seekers' profiles

Moj posao.hr (online). Available on: <https://www.moj-posao.net/Profili/> (07.02.2018.)

List of employment agencies in Croatia.

Posao.hr. (online). Available on: <https://www.posao.hr/clanci/savjeti/kako-do-posla/popis-agencija-za-zaposljavanje-u-hrvatskoj/4552/> (07.02.2018.)

Croatian Central Bureau of Statistics. “*Employment trend - Statistic data of persons in paid employment in legal entities in the Republic of Croatia (July 2017)*”. Available on:

[https://www.dzs.hr/Hrv\\_Eng/publication/2017/09-02-01\\_07\\_2017.htm](https://www.dzs.hr/Hrv_Eng/publication/2017/09-02-01_07_2017.htm) (07.02.2018.)

Croatian Employment Service. "Unemployment trend – statistics - Number of unemployed people from 2004. till 2018." (online). Available on: <http://statistika.hzz.hr/statistika.aspx?tipIzvjestaja=1> (07.02.2018.)

Croatian Central Bureau of Statistics. "Monthly statistical newsletter of Croatian Central Bureau of Statistics" (online). Available on: <http://www.hzz.hr/default.aspx?id=10052> (07.02.2018.)

## 1.8. Quiz and exercise

### Questions:

1. Which public institution tracks changes on the labour market?

- a) Ministry of Labour and Social Welfare
- b) Tax Department
- c) Central Bureau of Statistics
- d) Croatian Employment Service

2. Among following answers which is one of the statistical data published in the report of Central Bureau of Statistics?

- a) index of the number of employed based on age group
- b) index of the number of employed based on nationality
- c) index of the number of employed based on area of business activity
- d) index of the number of employed based on occupational record

3. Except Croatian Employment Service, who helps employers in process of finding suitable employees?

- a) Agency for entrepreneurship development
- b) Agency for labour market integration
- c) Unemployment agency
- d) Other employment agencies

4. Where employer can not publish job advertisement?

- a) in daily or weekly newspaper
- b) on Commercial Court notice board
- c) in person
- d) on web page

5. Which service is not provided to employers, when searching suitable employee, by Croatian Employment Service?

- a) Job Ad adjustment to employers' needs
- b) Mentor program for vocational training
- c) using meeting facilities when having interview with potential candidate
- d) selection of an appropriate candidate

6. Which is common goal of all active employment policies measures?

- a) Professional qualification
- b) Decreasing unemployment rate
- c) Seasonal employment
- d) Vocational training

7. One of the active employment measures that employers can take benefit from is made through cost refunds. Which one?

- a) transport
- b) lunch/meal
- c) contributions
- d) work clothes

### Exercise 1.

Employer found the right candidate and wants to hire him for the indefinite time on the position web designer.

Candidate's data:

Age: 28

Occupation – education: web designer

Work experience: 6 months on the position web designer

Registered with the unemployment bureau for 8 months

Make a research if it is possible for the employer to use any of the employment policies measures in order to reduce the employment costs.

If yes, which one, for how long, and which are the benefits for the employer?

Write a report: \_\_\_\_\_

**Correct answer:**

**Rate the answer:**

- a) correct
- b) partially correct / incomplete
- c) incorrect

## 2. Provisions which regulate employer–employee relation

### 2.1 Overview / Theoretical Framework

This Unit is designed to introduce the National Legal Acts and European Union provisions from labour market and work law field, which you need to know.

After acquiring knowledge from this Unit, you will be able to:

- identify legal regulation regarding work and labour relation and track any potential changes
- use the information in their work with foreign investors.

### 2.2. European Union

European Union seeks to promote social progress and to improve living and working conditions for European citizens.

Regarding working rights European Union establishes minimum standards which complement political initiatives made by E.U. Member States.

European Union brings into force the laws (Directives) which establish minimum requirements for:

- Work and employment conditions
- Employees' notifying and counselling

A higher level of protection can be given to employees' if a Member State decides to.

From EU Labour Law have benefit employers and whole society as well. It gives clear framework work rights and obligations, provides employees' health protection, and promotes sustained economic growth.

European Union encourages free movement of goods, services, capital and workers by Labour rights Act.

From Directive 2014/15/EU of the European Parliament and of the Council of 16 April 2014 on measures facilitating the exercise of rights conferred on workers in the context of freedom of the movement for workers:

*“The free movement of workers gives every citizen of the Union, irrespective of his or her place of residence, the right to move freely to another Member State in order to work there and/or to reside there for work purposes. It protects them against discrimination on grounds of nationality as regards access to employment, conditions of employment and work, in particular with regard to remuneration, dismissal, and tax and social advantages, by ensuring their equal treatment, under national law, practice and collective agreements, in comparison to nationals of that Member State.”*

### **2.3. EURES**

Freedom of workers’ movement in European Union opens new possibilities for finding appropriate employee with certain knowledge and skills.

With that purpose web portal EURES (European Employment Service) was made which aims to facilitate the free movement of workers within the counties of the European Economic Area.

Partners in the network include public employment services, trade unions and employer organisations.

On foreign employers' request job advertisement is possible to be published on Croatian Employment Service web pages. Employers' can use public services in order to contact potential workers and fill in job vacancy.

### **2.4. National legal regulations**

National legal regulations on which employer–employee relations and working contract are based:

- Labour law

Labour relations in Croatia are defined by labour law, if is not defined differently by other law or international contract, which is concluded and confirmed in order with Constitution of Croatia.



- Collective agreement

The collective agreement is written agreement between workers, represented by the Union, and one or more employers (Employers' Association) which has legal effect. Possible problems and situations are regulated by collective agreement.

Workers' and employers' obligations are established and rights are protected with the goal of achieving worker's equal status in the same profession.

Some of the professions in which collective agreement are established are commerce, hotel and catering industry, construction industry, wood industry.

The employment contract between employer and employee is based on Labour Law regulations and Collective Agreement (if needed – it depends on employers' business activity).

If employers' business field is in a profession for which collective agreement is in force, he is obligated to apply it.

Rights and obligations, which are not in detail defined by Labour Law, are established by collective agreement. These rights and obligations, for example, are: annual leave regarding workers' occupational record, salary accounting based on workplace classification, various tax-free reimbursement and other rights.

- Income Tax Law

Defined basic minimum salary, reliefs and workers' right on tax-free reimbursement, authors' royalties, other income, pupils and students' payments etc.

- The act on minimum wage

Ways of defining minimum wage are prescribed by the Act on minimum wage. That is the lowest amount of gross salary which belongs to employee for full work time (full work time is 40 hours per week).

- Retirement Insurance Law

Ways of employees' registration and dismissal, as well as changes during employment, are defined by Retirement Insurance Law and Health Insurance Law.

- Labour regulations

Labour regulation is an internal document extending the scope of the rights and obligations of the employer and the employee in their mutual relationship, which are not covered by the Labour Law. For an employer employing 20 or more employees, this internal document is mandatory.

However, an employer who does not have a statutory obligation to have the Labour regulations, still has the interest to draw it up in order to protect his interests in specific situations.

One of the examples is when employee terminates Labour contract in a short time after employment. Employer was legally obligated to obtain all necessary certificates needed for work on his expense, which employee can use by another employer or until their expiration. With labour regulation employer can protect himself and obligate employee for a refund of whole or certain percent of his expense.

Labour regulation is based on Labour Law and Collective agreement and must not be in conflict with any of it.

Before signing employment contract employer is obligated to give employee Labour regulation, if there is any, to read and sign its acceptance.

## **2.5. Important / Exceptions**

### **Foreign nationals' employment**

Foreign citizen's employment is based on Labour law, Collective agreement (if needed for certain professions) and Law on foreign nationals.

The procedure of E.U. foreign nationals and E.E.A. member state nationals employment is the same as for Croatian nationals. They are equal in all rights and obligations.

For third countries' nationals the conditions of entering, movement, employment and stay in the host country are defined in the Law on foreign nationals.

Every year Croatian government makes a Decision on the annual quota of foreign citizen employment permits.

With this decision are established:

- Annual quota for extension of issued employment permits
- Annual quota for new foreign citizen permits
- Annual quota seasonal workers in agriculture and forestry permits
- Annual quota intra-corporate transferee permits.

### **Unique residence and work permit**

Residence and work permit is a unique licence which allows foreign citizen work and residence in host country. It is issued in the form of Decision by the Police Department or police station in charge to foreign citizen who fulfils the conditions of the authorisation and supporting documents are added:

1. Labour contract – written confirmation form of concluded Labour contract or adequate work proof
2. The proof of foreign educational qualification
3. The proof of company, branch, representation, craft, association, or institution's registration.

On Ministry of the Interior web pages are published detailed information of work and residence permit authorisation conditions and procedures.

Some of published information:

- Which foreign nationals can work without work and residence permit or work registration certificate
- Work and residence permit based on and out of annual quota
- Which foreign nationals can work till 30, 60 and 90 days with work registration permit
- Highly qualified third country nationals residence,

and more other categories.

More information about residence and work permit for foreign citizens: see Module 6.

## 2.6. Tips from professionals

Complexity and broadness of National provisions on employer-employee relation are huge and demand support of a relevant professionals. In most cases, it is recommended that investor hire a lawyer, specified in labour law, when conducting an employment contract.

The investor should be informed that „Undeclared employment“ is strictly controlled.

Penalties like unregistered employee, employment contract uncoordinated with legislation, employees' late registrations, under minimum salary, salary and legal obligations un-payment, employment contract manipulations or even incorrect or not completely filled contract results with high fines, even after company closure.

Inspection is made by State Administration Office – Public Service and Tax Department.

## 2.7. Additional reading

In additional reading, you can read more information about Provisions which regulate employer–employee relation.

The European Commission. "*Employment, Social Affairs and Involvement*". (online). Available on: <http://ec.europa.eu/social/main.jsp?catId=157&langId=hr> (07.02.2018.)

Croatian Employment Institute. EURES for employers'. "*All about services of EURES Croatia regarding employment: information, assistance, publishing job vacancy, mobility program target, posted workers etc.*" Available on: <http://www.hzz.hr/default.aspx?id=10344> (08.02.2018.)

Croatian Pension Insurance Institute. "*EU regulations about social security system coordination, social security international treaties*". Available on: <http://www.mirovinsko.hr/default.aspx?id=2970> (08.02.2018.)

Croatian Pension Insurance Institute. "*Guide for posted workers in EU*". Available on: <http://www.mirovinsko.hr/UserDocsImages/EU/vodiczaizaslanjeradnikauEU.pdf> (08.02.2018)

## 2.8. Quiz and exercise

### Questions:

1. Labour relations in Croatia are defined by:

- a) Employment law
- b) Work relations law
- c) Labour law
- d) Collective agreement

2. When does the employer whose business field is catering industry need to apply Collective agreement?

- a) when draw up a contract of employment
- b) when hire more than 20 workers
- c) when the restaurant is bigger than 100m<sup>2</sup>
- d) when his activity is carried out at night

3. Workers' rights and reliefs on tax-free reimbursement are defined by:

- a) Labour law
- b) Contributions' law
- c) Income Tax Law
- d) Employees' rights law

4. Who is obligated to apply Labour regulation?

- a) Employer for whose activities is written Collective Agreement
- b) Employer who hire 20 and more Employees
- c) Employer who hire more than 30 Employees
- d) Employer who hire invalids

## Exercise 2.

Investigate in Labour Law and Collective agreements how many days of holiday leave are entitled the following employees with 11 years of occupational record:

- bricklayer
- hairdresser
- waiter
- accountant

Write your answer (number of days and where did you find the answer): \_\_\_\_\_

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**Correct answer:**

**Rate the answer:**

- a. correct
- b. partially correct/ incomplete
- c. incorrect

## 3. Types of employment

### 3.1 Overview / Theoretical Framework

This Unit is designed to introduce types and procedures of employment and additional useful information in employer-employee relation to you, future F.D.I. advisors.

After acquiring knowledge from this Unit, you will be able to:

- understand and implement different types of employment procedure

- understand implementation of National legal provisions from work and work relations fields.

### **3.2. Introduction**

There are few types of employment based on legal regulations on which employment contract between employer and employee can be concluded.

Any kind of employment contract defines obligations and protects the rights of both contracting parties (employee and employer).

- **Permanent employment**  
Employment without termination date.
- **Fixed-term employment**  
Employment with specified reasons for employment and termination date.
- **Seasonal employment**  
Fixed-term employment with specified termination date.
- **Permanent seasonal employment.**  
The occupational record goes even though employee does not work. During standby, employer pays monthly pension contribution, and health insurance is paid by the state (one of the employment boost measure).

### **3.3. Employment procedure, employers' and employees' obligations**

#### **Employment procedure**

When searching for adequate workforce employers make job advertisement in which all data about the position, competencies, skills, and required level of education is written.

Before publishing job Ad, in order to find an appropriate employee, employer has a possibility to use help from the Croatian Employment service to adjust Ad to his needs.

Application needs for worker to the Croatian Employment Service can be submit on the Application Form [P.R.](#)

There is no legal obligation for the employer to report Employment Service or any other public institution about job application or its results.

Job advertisement can be published on several web pages:

- [Croatian Employment](#) Service;
- [My Job](#);
- [Job](#);
- Other employment agencies' web pages.

There are following steps after job Ad's expiration date:

- Review of received CV;
- Interview and candidate selection.

### **Employers' and employees' obligations**

When employer has chosen a candidate the following steps are required:

Gathering and validation of other documentation of the selected candidate.

Documents listed or attached to the Curriculum Vitae of the selected candidate are only candidate's personal statements or documentation which proves that conditions of the application are fulfilled.

Additional documentation is required, when employment contract is signed, for the work evidence (legal service) and accounting needs (salary calculation division).

In order for the employer to ensure that he will have all the necessary documentation in time to fulfil his obligations accepted by signing the employment contract, he / she has the right to request the complete documentation before signing the employment contract.

For the complete list of potentially necessary additional documentation, see Annex 5.3.1.a., please.



### Gathering all extra documentation which is obligated in specific business branches

An applicant can have valid certificates from his former employer, for example sanitary examination certificate (caterer, hairdresser, beautician, ....), hygienic minimum certificate (caterer) and/or medical examination certificate (construction workers).

If validation date of mentioned documents is expired, employer's obligation is to obtain employee new certificate.

Mentioned document's expense is paid by the employer.

### Presentation and acceptance of Labour regulation

The employer is obligated to give employee Labour regulation, if there is any, to read and sign its acceptance. On the other hand, employee has to read it and sign Decision of its acceptance.

### Work safety and fire protection

Work safety is a legal obligation for the employer. If he is not qualified himself or has not qualified employee, he must use external associate's services.

With each new employment, worker has to pass work safety exam.

Each employee has to obtain also the fire protection certificate, however employee can present this certificate to the new employer, even though it was issued at the former employer.

### Employment contract

After employer is ensured that has all necessary documentation, and it is in order to legal requirements and his business policy, the last step can be fulfilled:

*drawing up and signing Employment contract*

There are standard employment contract forms for indefinite and fixed-term period which contains all basic elements and regulations that the contract must have.

If wanted, the employer can make employment contract with more details and regulations.

All regulations included in employment contract must be in accordance with Labour law and other legal regulations foreseen for specific cases or certain profession.

For basic information about Labour contract content: see Annex 5.3.1.b. please.

### Fixed-term employment contract specifics

The fixed-term employment contract can be made in only unique cases. Conditions, duration and renewal possibilities are regulated by Labour Law, Article 12. and 13. .

Fixed-term contract reasons can be:

- Replacement for an absent employee;
- Large amount of work;
- Seasonal employment;
- Other

### **Teleworking contract specifics**

A Teleworking contract (work from home) has prescribed content as well as standard employment contract in which additional conditions can be added.

Some of the additional elements can be: equipment use, materials, communication costs payment, responsible person define, work time, work organization, quality and quantity of products/services, business timeframe.

However, health and work protection regulations are not optional – they must be included in this type of employment contract.

### **Other employer-employee obligations**

Some specific business legislation requires that employees pass additional exams, for example:

- In some industries connected with user / customer's health protection, employee is obligated to make sanitary examination. Sanitary certificate has to be renewed within the legal deadline.
- Employees in catering industry must pass hygienic minimum exam.
- Construction workers are obligated to do health examination before employment.

Additionally, each employer is obliged to choose a specialist of occupational medicine for his employees, usually according to the working place, filling in the appropriate form verified by a stamp and signature of the responsible person. The employees have to be informed about the responsible chosen specialist of occupational medicine.

Some Examples of occupational medicine are:

- Selection/change of a specialist of occupational medicine;  
Form R.A. – an order for assessment of the worker's health ability;
- Form N.R.-1 – an order for assessment of the worker's health ability for night work;
- Report of worker's medical examination about his health ability to work with the computer.

These and more other forms can be found on the web site of [Croatian institute for health protection and safety at work](#).

You should inform your client about additional requirements at the selected specialist of occupational medicine and Public Health Institute.

### **Registration in retirement and health insurance system**

When hiring the first employee, employer must make a registration in social and retirement security subject registry.

Next to the registration **form** following documentation must be attached:

#### **Legal entity:**

- Decision of registration in the court register;
- Decision from Croatian Central Bureau of Statistics about the company's business activity in line with the National classification of business activities.

#### **Natural person (s.p.):**

- Decision of registration in Trade registry;
- Work record book of the employee;
- Identity card copy of the employee;
- Confirmation of the beginning of personal insurance on the form;
- In case of for foreign citizens – work permit-

Registration forms for legal entity and natural person are the same.

“[Form M11-P](#)” for retirement security

“[Form 1](#)” for health insurance.

Employer who has two (and less) employees brings in person employment registration forms at the Retirement and Health Insurance Office. Employee registration and changes during employment through official Retirement Insurance web page is obligated, when hiring three and more employees.

When registering new employees, in the Retirement and Health Insurance, following documents are needed:

- Filled form for Retirement Insurance registration ([Form M1-P](#));
- Filled form for Health Insurance registration ([Form 2](#));
- Filled, signed and stamped employment contract by employer and employee;

- Copy of employee's identity card.

In case of employee's registration through internet Health Insurance form is not needed, because the registration is managed automatically through the [Retirement Insurance system](#).

In case that employer registers employees in person (this is possible for the first two ones), he needs to register them in both Insurance Systems and be very careful to register them in the Retirement System before they start working, since there are serious fines if this requirement is not fulfilled.

Application forms may be found on the web sites of Croatian Pension Insurance Institute and Croatian Institute for Health Insurance.

### 3.4. Important / Exceptions

Employer who has 20 employees or more must hire certain number of people with disabilities.

If employer doesn't fulfill this obligation, he has to pay monthly fees according to the formula prescribed by the Law.

General conditions of employment are defined by Labour law, Professional rehabilitation law and employment of persons with disabilities, and in some cases by Collective agreements.

Detailed information about employment of disabled persons, prescribed formula, Professional rehabilitation and employment of disabled persons and Regulations may be found on the web page of Croatian Dental Medicine Chamber.

### 3.5. Tips from professionals

#### Unemployed board member – director and Managerial contract

Unemployed board member and company's executive director is obligated to register at Croatian retirement Insurance registry. This applies for board member who is not employed in any company in Croatia, or other country which has signed Agreement on double taxation avoidance with Croatia.

In this case, Retirement Insurance Institution will make a Decision of retirement, health insurance, and work protection contributions. These contributions are board member **private obligation and it cannot be part of business expense**.

The base for payment of contribution is the minimum base defined for payment of contribution. By the Order on the amounts of bases of statutory insurance contributions for 2018. (Article 8. No. 6 and Article 19. point 1), base for payment of contribution for employed board member or company's executive director is substantially lower.

In some cases investors want to have **managerial contract** with board member or company's executive director to define and protect each other's interests.

There is no standard form for the managerial contract. However, it should include detailed responsibilities description, manager's commitment when company representing, contract conclusion, organisation and business control, and other.

Manager's rights like for ex. business phone, vehicles, and apartment use are also defined in this contract.

Managerial contract can be employment contract in the same time, and it can be concluded without employment.

More information about other working contracts possibilities without establishing the employment relationship you can read in Annex 5.3.3.

### **3.6. Additional information**

In Additional information you can find contracts and forms mentioned in this Unit and find out more about the Labour market, employment and insurance system.

#### **Labour market:**

Application needs for worker – Form PR

Croatian Employment Service. "*Need for employees application*". (online). Available on: <http://www.hzz.hr/default.aspx?id=10326> (26.02.2018)

Job market of Croatian Employment Service

Croatian Employment Service. "*Job vacancies*". (online). Available on: [https://burzarada.hzz.hr/Posloprimac\\_RadnaMjesta.aspx](https://burzarada.hzz.hr/Posloprimac_RadnaMjesta.aspx) (26.02.2018.)

Job market of Croatian Employment Service

Croatian Employment Service. "*Supply of workers*". (online). Available on: [https://burzarada.hzz.hr/Posloprimac\\_RadnaMjesta.aspx](https://burzarada.hzz.hr/Posloprimac_RadnaMjesta.aspx) (26.02.2018.)

Official page "My Job"

Moj posao. Available on: <https://www.moj-posao.net/> (26.02.2018.)

Official page "Job"

Posao.hr. Available on: <https://www.posao.hr> (26.02.2018.)

Zakon.hr. "Labour Law". (online). Available on: <https://www.zakon.hr/z/307/Zakon-o-radu> (07.02.2018.)

### **Contracts and forms:**

Official Gazette. "Employment contract". (online). Available on: <https://e-trgovina.nn.hr/tiskanice/v-tiskanice-za-radni-odnos-mirovinsko-invalidsko-i-zdravstveno-osiguranje/051117> (26.02.2018.)

Official Gazette. "Fixed-term contract". (online). Available on: <https://e-trgovina.nn.hr/tiskanice/v-tiskanice-za-radni-odnos-mirovinsko-invalidsko-i-zdravstveno-osiguranje/051118> (26.02.2018.)

Example of students' contract.

University of Zagreb, Student Center Varazdin. "Registration of Students". Available on: <http://www.scvz.unizg.hr/student-servis/primjeri-dokumenata/g67?fgid=21> (07.02.2018.)

Specificities of managerial contract in relations to the Labor law.

Labour Relations in Practice. "Managerial contract" (online). Available on: <https://www.radniodnosi.hr/33/menadzerski-ugovor-uniqueidmRRWSbk196FxrPUATdrQkIwYDiCmfY-rU8tVf8wfmWRDjM9MNB0ewg/> (07.02.2018.)

### **Insurance system:**

Retirement Insurance Institute. "Newsletter with all necessary information - who is obliged to register in retirement insurance, conditions, deadlines, forms, additional documentation". Available on: [http://www.mirovinsko.hr/UserDocsImages/publikacije/brosure/Brosura\\_kakouosiguranje\\_opcaME.pdf](http://www.mirovinsko.hr/UserDocsImages/publikacije/brosure/Brosura_kakouosiguranje_opcaME.pdf) (08.02.2018.)

Retirement Insurance Institute. "Deadline for retirement insurance registration (registration, changes and termination)". Available on: <http://www.mirovinsko.hr/default.aspx?id=154> (08.02.2018.)

Retirement Insurance Institute. "Electronic business – e-registration – information, procedure". Available on: <http://www.mirovinsko.hr/default.aspx?id=4149> (08.02.2018.)

Croatian Institute for Health Insurance. "Health care Insurance registration, change and termination – basic information, procedure, required documentation and forms". Available on: <http://www.hzzo.hr/obvezno-osiguranje/prijava-promjena-i-odjava-u-obveznom-zdravstvenom-osiguranju/> (08.02.2018.)

Ministry of Finance. Tax Department. "*Order on the amounts of bases of statutory insurance contributions for 2018*". (online). Available on: <https://www.porezna-uprava.hr/Dokumenti%20vijesti/Naredba%20osnovice%202018%20%2021%2011%202017.pdf> (07.02.2018.)

**Registration forms for legal entity and natural person:**

Filled form for Retirement Insurance registration (Form M-11P)

Retirement Insurance Institute. "Form M-11P" (online). Available on: <http://www.mirovinsko.hr/UserDocsImages/tiskanice/metiskanice/m11P.pdf> (26.02.2018.)

Filled form for Health Insurance registration (Form: Tiskanica 1 )

Croatian Institute for Health Insurance. "*Forms*". (online). Available on: <http://www.hzzo.hr/tiskanice/> (07.02.2018.)

**Registration forms for employees:**

Filled form for Retirement Insurance registration (Form M1-P)

Retirement Insurance Institute. "Form M-1P" (online). Available on: <https://narodne-novine.nn.hr/clanci/sluzbeni/dodatni/429865.pdf> (07.02.2018.)

Filled form for Health Insurance registration (Form: Tiskanica 2)

Croatian Institute for Health Insurance. "*Forms*". Available on: <http://www.hzzo.hr/tiskanice/>

**Other forms:**

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**Health protection:**

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Croatian Dental Medicine Chamber. " People with disabilities employment". (online). Available on: <http://www.hkdm.hr/novosti/967/Zaposljavanje-osoba-s-invaliditetom> (07.02.2018.)

## **3.7. Quiz and exercise**

### **Questions:**

1. Which exam employee must pass at each new employer?

- a) personal data protection
- b) fire protection
- c) hygienic minimum



d) work safety

2. When natural person applies in social and retirement security subject registry, which document can not be attached?

- a) Decision of registration in Trade registry
- b) Identity card copy
- c) Decision from Croatian Central Bureau of Statistics
- d) confirmation of registration beginning of personal insurance

3. Deadline for employee's registration on Retirement Insurance is:

- a) on the day of work begin before his working time began
- b) one day before employee's work
- c) on the day of work begin during his working time
- d) 8 days before his work began

4. Which legislation regulate EU foreign citizens' special status that needs to be included in the employment contract?

- a) Foreign citizen Law
- b) Insurance Law
- c) none – they are equal with domestic employees
- d) National minorities Law

5. Decision on the annual quota of foreign citizen employment permit establish annual quota for seasonal work in:

- a) construction
- b) agriculture and forestry
- c) wood industry
- d) tourism

6. Detailed information of work and residence permit conditions and procedures are published on:

- a) Ministry of Labour and Social Welfare web pages

- b) Ministry of Foreign Affairs web pages
- c) Employment Service web pages
- d) Ministry of Interior web pages

7. What abbreviation EURES means

- a) European Employment Service
- b) European portal for employees' rights
- c) European portal for Human rights
- d) European portal for student mobility

8. About chosen specialist of occupational medicine employer must inform:

- a) Trade union
- b) Employee
- c) Health Insurance
- d) employees' personal doctor

9. What kind of obligation has unemployed board member?

- a) to register at Croatian Retirement Insurance registry as unemployed board member
- b) hire himself in some other company
- c) make a contract with insurance company
- d) hire three employee

10. „Undeclared employment“ is controlled by:

- a) Retirement service and Health Insurance
- b) Employment Service and occupational medicine
- c) Tax Department and Employment Service
- d) State Administration Office- Public Service and Tax Department

**Exercise 3**

Help the Client to hire waiter during the summer season.

Find application form and register need for worker to the Employment Service.

Find application form and fulfil Employment contract.

Find application form and register worker to the Retirement Insurance.

Find application form and register worker to the Health Insurance.

Write your answer:

---

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**Correct answer:**

Rate the answer:

- a) correct
- b) partially correct / incomplete
- c) incorrect

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### **ANNEX 5.3.1a) TYPES OF EMPLOYMENT, EMPLOYMENT PROCEDURE, EMPLOYERS' AND EMPLOYEES' OBLIGATIONS**

#### **Possible documentation in worker evidence and accountancy:**

- Job application
- Qualification credentials
- Curriculum vitae
- Identity card copy
- Occupational record document
- Bank account document
- Other documents (sanitary booklet, fire protection certificate, hygienic minimum certificate, health examination certificate, etc)
- Statement of labour regulation acceptance
- Labour contract
- Confirmation of employment registration on retirement insurance
- Confirmation of employment registration on health insurance
- Confirmation of occupational record
- Tax deduction form (it is issued by Tax Department on employee's request, or it can be listed by employer from Tax Department web pages through e-tax department program).

### **5.3.1b) EMPLOYMENT CONTRACT**

#### **Labour contract must have this basic information:**

- Employer's and employee's basic data
- Position name and work description
- Place of work (employee can work on more than one location)
- Start of work date (and end, in case of fixed-term contract)
- Probationary period (not needed in case of fixed-term contract)
- Termination period (not needed in case of fixed-term contract)
- Weekly work time (max. 40 hours per week)
- Gross salary amount
- Salary payment date
- Refund for days of sick leave
- Gross salary allowance (overtime work, night work, feast and public holiday work, work in shifts, difficult work conditions, etc. shown in percentage on gross salary, and stimulation amount which is not obligatory)
- Daily and weekly rest
- Annual leave duration
- Work time schedule (beginning and end of daily work)
- Termination period (not needed in case of fixed-term contract).

### Annex 5.3.3.

#### **OTHER WORKING CONTRACTS POSSIBILITIES WITHOUT ESTABLISHING THE EMPLOYMENT RELATIONSHIP**

There are various possibilities of employment without establishing a working relationship. In these cases it should be considered Labour law provisions and definition of dependent employment.

Dependent employment is done by employees who have signed Labour contract.

In case when there is regular need for certain position, it can not be classified as temporary or occasional activities done by pupil or student.

- On-call contract (temporary and occasional work)
- Copyright agreement with the certificate from professional association (artistic work)
- Copyright agreement without the certificate from professional association

On these contracts employer does not define daily or weekly working time and it can not last for a long time.

- Agreement with Pupil

Agreement signed with schooling center

- Student contract

Contract signed with student center

Pupils or students work must be temporary and occasional. In case of permanent need of position the employer is obligated to hire an employee.

- Learners on practice

Contract is signed with learner's school

- Professional development without establishing a working relationship

Governmental employment boost. Contract is signed with Employment service and employee.



## **MODULE 6. PROCEDURES AND CONDITIONS FOR OBTAINING WORK AND LIVING PERMIT AND FAMILY REUNIFICATION IN HOST COUNTRY**

### **Introduction**

The conditions for temporary and permanent residence permit authorization are defined in provisions of Law on foreign nationals and accompanying bylaws. After adjustment of the National legislation with European Union legislation, status of foreign nationals from E.E.A., Swiss Confederation or Third-country nationals are different. Consequently, there are also differences in conditions and procedures for acquiring citizenship, work and residence permit.

### **Glossary**

Foreign employer: legal or natural entity who has business address in EEA.

Employee: person who signed Labour contract and works on the employers' order.

Worker: substitute for "employee".

Posted worker: employee who works and resides in foreign country

Foreign national: person who is not Croatian citizen, but has EEA, Swiss Confederation or Third-country citizenship, or is a person without citizenship.

Apostille: (extra) authentication or legalization of public documents which are used in international legal circulation.

EU: European Union.

EEA: European Economic Area, which includes EU countries, Iceland, Liechtenstein and Norway.

## **1. Regulating stay and work of foreigners in host country**

### **1.1. Overview/Theoretical framework**

Within this Unit you will be introduced to the term of foreign national, and categories of foreigners. As F.D.I. advisor, you should be familiar with basic characteristics of certain categories and basic conditions which are required to fulfil in order to obtain permit.

After acquiring knowledge from this Unit, you will be able to:

- recognize difference between foreign national categories status.
- inform foreign citizens of procedure of work and residence permit depending on their status.
- introduce the process of acquiring temporary work and residence permit to the foreign citizen.

### **1.2. Foreign nationals categories**

The conditions for granting temporary or permanent stay permit to foreigners are regulated by the Foreigners Act and accompanying bylaws.

The Foreigners Act divides the foreigners who wish to stay or work in Croatia into several categories. The documents submitted with the application depend on the category.

Those categories are:

1. Short-term stay registration procedure.
2. Nationals of EEA member states and their family members.
3. Third-country nationals with permanent residence in an EEA member state and their family members.
4. Highly-qualified third-country nationals.
5. Third-country nationals.

#### 1.2.1. Short-term stay registration procedure

Short-term stay is a stay of a foreign national of up to 90 days (3months) in any period of 180 days (6 months) on the basis of a visa or without a visa.

The following are exempted from the obligation to register for a short-term stay:

- Nationals of E.E.A. Member States.

- Foreign nationals who are not nationals of an E.E.A. Member State or Swiss Confederation and are family members of nationals of Croatia or another E.E.A. Member State. Persons who can be considered family members are designated in the provisions of the Foreigners Act.

They are entitled to stay in Croatia for up to 3 months from the date of entry, if they possess a valid travel document or personal I.D.

Any legal or personal entity or any other public institution which had provided accommodation to the national of a Third State must register their stay within 1 day from the arrival date.

If the registration can't be done by accommodation provider, nationals of a Third State are required to register their short-term stay by themselves within 2 days from the date of entry or change of accommodation.

A short-term stay shall be reported to the Police Department or police station in charge in accordance with the place of accommodation, and it could also be done electronically.

Registration form ([Form 8](#)) and more information are available on the website of the Ministry of Interior Affairs.

### 1.2.2. Nationals of E.E.A. member states and their family

Nationals of E.E.A. member states or the Swiss Confederation and their family members, or family members of Croatian nationals intending to stay in Croatia longer than three months have to register temporary residence no later than eight days before the end of the three-month stay.

Certificate of registered temporary residence is issued in the form of a biometric residence permit valid for up to five years.

The procedure is performed at the police station depending on the address.

Nationals of E.U. member states and their family members can work and provide services in Croatia with no residence or work permit and no work registration certificate.

However, according to Article 236 of the Foreigners Act, the Government of the Republic of Croatia may after accession of the Republic of Croatia to the European Union, by its Ordinance, lay down implementation rules referring to work of nationals of the European Union Member States and members of their families and which are being implemented at the time of signing a Treaty of Accession, with regard to nationals of those Member States that are to implement national measures or measures resulting from Bilateral Agreements, for the period of implementation of such measures.

List of E.U. member countries that have limited access to their labour market for Croatian nationals can be found on the website of the [Ministry of Labour and Pension System](#).

Based on reciprocity, for nationals of those E.U. member states and members of their families' restrictions apply in accessing Croatia's labour market, therefore said foreigners can regulate their legal work status in the following manner:

- if they want to work up to 90 days a year based on the work registration certificate
- if they want to work longer than 90 days a year and are establishing labour relations in Croatia, they have to apply for residence and work permit.

These limitations will remain in effect until E.U. member states apply the same limitations for the Croatian nationals and their family members.

#### 1.2.3. Third-country nationals with permanent residence in an e.e.a. member state and their family

Temporary residence to a third-country national with permanent residence in another E.E.A. member state will be approved if they have:

- a valid passport
- means of supporting themselves and their family members
- health insurance
- if they fulfil the rest of the criteria for granting temporary residence given the nature of stay

Request can be submitted in Croatian diplomatic mission/consular office in E.E.A. Member State or police department/office in Croatia.

#### 1.2.4. Highly-qualified third-country nationals

##### Issuing residence and work permit – **the E.U. Blue Card**

Residence and work permit (the E.U. Blue Card) simultaneously grants temporary residence and work in Croatia.

Residence and work permit can be granted to third-country nationals who meet the criteria stated in Article 54 of the Foreigners Act (a valid passport, health insurance, proof they have means of support) and enclose:

1. work contract or some other corresponding contract for performing highly-qualified labour, lasting for at least a year
2. proof of high school education or completed undergraduate and graduate studies or integrated undergraduate and graduate studies or specialist graduate studies.

The residence and work permit (the E.U. Blue Card) is issued in the form of **biometric residence permit**.

**Request may be submitted in Croatian diplomatic mission/consular office in E.E.A. Member State or at the police administration/station in the intended place of residence in Croatia.**

#### 1.2.5. Third-country nationals

*Temporary residence* may be granted on the following grounds:

- family reunification
- secondary school education and university studies
- scientific research
- humanitarian grounds
- life partnership
- work
- other purposes

**Foreigners who do not need a visa for entering Croatia** can submit their temporary residence application to the police administration/police station according to the intended place of residence, employer's location or place of work.

**Foreigners who do need a visa for entering Croatia** submit their temporary residence or work and residence application to a diplomatic mission/consular post of Croatia.

Exceptionally, they can submit the application to the police administration/police station according to the intended place of residence if:

- they are coming for the purposes of regular undergraduate, graduate or postgraduate studies;
- they are coming for the purposes of scientific research based on visiting contract;
- they are covered by Article 76, paragraph 1, items 12, 13, 14 and 15 of the Foreigners Act (see also Article 79, paragraph 1, item 2 of the same Act.);
- He/she is close family member of nationals of Third country from 1.,2.,3. point of this paragraph;
- he/she is close family member of Croatian citizen;

- He/she is life or non-formal life partner of Croatian citizen.

The following must be enclosed with the application:

- a colour 35x45 mm photo;
- a copy of a valid passport;
- evidence of health insurance;
- evidence of sufficient means of subsistence;
- evidence of the reason for temporary stay (for example marriage certificate, university enrolment confirmation or other proof based on purpose of intended stay).

Enclosed documents must be either original or a certified copy, not older than six months. Foreign documents have to be translated into Croatian language and certified in line with special regulations.

Within 30 days of receiving the notification that their temporary stay has been granted, foreigners have to report their residence to the police administration/station. Failing to do so within said time period, the temporary stay permission/work and residence permit become invalid.

A temporary residence permit is valid for one year. The passport on the basis of which the permit is issued must be valid for at least 3 months longer than the period for which the permit is issued for. A foreigner shall be granted temporary residence if he can provide the reason for temporary residence, if he possesses a valid travel document, sources for living expenses, health insurance, and there is no ban on his entry and stay and if he is not a threat to public order, national security or public health.

More detailed information on the stay of foreigners is published on the website of the Ministry of the Interior.

### **1.3. Important/exemption**

An application for a temporary residence permit should be submitted by the foreign national. An application for permission to stay and work may be submitted also by the employer.

### **1.4. Tips from professionals**

Since regulations are changing rapidly, F.D.I. advisor should check the data on the provided web pages, or directly contact the relevant stakeholders, before giving any information or starting the permit procedure for foreign investors.

## 1.5. Additional reading

If you want to learn more, here is the list of the recommended further reading about regulating stay and work of foreigners in host country.

Agency for investments and competitiveness. "*Residence of foreign nationals*" (online). Available on: <http://www.aik-invest.hr/investicijski-vodic/dozvole-za-boravak-i-rad-i-vize/boravak-stranaca/> (26.02.2018.)

Ministry of Internal Affairs Republic of Croatia. "*Residence permit in Croatia*" (online). Available on: <http://www.mvep.hr/hr/konzularne-informacije/boravak-stranaca/odobrenje-boravka-u-hrvatskoj/> (26.02.2018.)

Zakon.hr. "*The Croatian Citizenship Act*" (online). Available on: <https://www.zakon.hr/z/142/Zakon-o-strancima> (26.02.2018.)

Application Form 8a

Ministry of Interior Affairs. "*Registration and cancellation of residence or registration of change of address*" (online). Available on: <http://www.mup.hr/UserDocsImages/Dokumenti/stranci/2013/Obrazac%208a.pdf> (26.02.2018.)

More detailed information on the stay of foreigners

Ministry of the Interior: [www.mup.hr](http://www.mup.hr) (online). Available on: [www.mup.hr](http://www.mup.hr) (26.02.2018.)

Application Form 1b - Registration of temporary stay of EEA citizens

Ministry of Interior. "*Form 1b*" (online). Available on: [https://www.mup.hr/UserDocsImages/Dokumenti/stranci/2013/obrazac\\_1b.pdf](https://www.mup.hr/UserDocsImages/Dokumenti/stranci/2013/obrazac_1b.pdf) (26.02.2018.)

## 1.6. Quiz and exercise

### Questions

1. Five categories of foreign citizens are: nationals of EEA member states and their family members, tourist (short-term stay), third-country nationals, and .....

- a) Persons with dual citizenship
- b) Seafarers
- c) Asylum holder
- d) Highly-qualified third-country nationals

2. Short-term stay (tourist) can be registered up to how many days?

- a) Up to 30 days
- b) Up to 90 days
- c) Up to 180 days
- d) Unlimited

3. Nationals of which states cannot work and provide services in host country without work and residence permit?

- a) Nationals of EEA member states and their family members
- b) Nationals of Swiss Confederation and their family members
- c) Croatian citizens' family members who are nationals of EEA member states.
- d) Third-country nationals

4. Where can be temporary residence request for Third-country nationals with permanent residence in an EEA member state submitted?

- a) In host country diplomatic mission/consular office or police department/office in EEA member state
- b) In Third-country diplomatic mission/consular office or police department in host country
- c) In host country diplomatic mission/consular office in EEA member state or police department/office in host country
- d) In Third-country diplomatic mission/consular office or police department in EEA member state

5. The EU Blue Card is issued for:

- a) Temporary residence and work in Croatia for highly-qualified third-country nationals
- b) Permanent residence and work in Croatia for highly-qualified worker
- c) Tourist (short-term stay) for highly-qualified worker
- d) Short-term Visa for highly-qualified worker

6. Which of the following documents, Third-country national do not need to submit when applying for first temporary residence?

- a) Photography
- b) Valid passport – copy
- c) Proof of school education
- d) Proof of health insurance

7. Who can submit request for temporary residence permit?

- a) Foreigner
- b) Employer on behalf of the foreigner
- c) Employment Service on behalf of the foreigner
- d) Retirement Service based on foreigner request

8. Who can submit request for work and residence permit?

- a) Employment Service or employer on behalf of the foreigner
- b) Foreigner or Retirement Service on behalf of the foreigner
- c) Foreigner or employer
- d) Foreigner or consultant on behalf of the foreigner

## **Exercise**

Help foreign citizen member of EGP whose intention is to stay more than 3 months in the host country to apply for temporary residence permit. Find a Form to be filled and attach the necessary documentation.



Write your answer: \_\_\_\_\_

**Correct answer:**

**Rate your answer:**

1. correct
2. partially correct / incomplete
3. incorrect

## 2. Procedure for obtaining work permits

### 2.1. Overview/theoretical framework

This Unit is designed to introduce the procedure and conditions for obtaining work permit in Croatia, what you, future F.D.I. advisor, should know about.

After acquiring knowledge from this Unit, you will be able to:

- recognize difference between work and residence permit and the certificate of work registration in Croatia
- to inform and/or lead foreign citizen through process of obtaining temporary work and residence permit.

### 2.2. Introduction

Foreign citizen can work in Croatia based on work and residence permit or the certificate of work registration.

### 2.3. Unique residence and work permit

#### A residence and work permit based on the annual quota

A residence and work permit based on the annual quota shall be granted to foreign nationals who meet the prerequisites for a temporary residence permit and who provide the following:

1. a contract of employment or a written confirmation that a contract of employment has been concluded or any other relevant contract.
2. proof of educational background and qualifications.
3. proof of the registration of a company, branch office, representative office, trade, association or institution in the Republic of Croatia.

#### A residence and work permit outside the annual quota

Permits to stay and work **outside the annual quota** may be issued to the following persons:

- Daily Migrants under the condition of reciprocity.
- Key personnel, service providers, employees and their family members whose status is regulated by the Stabilization and Association Agreement between the European Communities and their Member States and the Republic of Croatia (applies to E.U. nationals).
- Foreign nationals holding key positions in companies, branches and representative offices.
- Foreign nationals who have moved within the Company through internal staff transfers within companies and other necessary persons, as defined in the Protocol on the Accession of the Republic of Croatia to Marrakesh Agreement Establishing the World Trade Organization.

- A self-employed foreigner in their own company or in a company in which they have an ownership interest greater than 51% or in their own craft.
- Workers who perform services for or on behalf of a foreign employer who does not have the right of establishment in an E.E.A. Member State (a foreign employer is registered in a country which is not a member of E.E.A., such as Bosnia & Herzegovina, Russian Federation etc.).
- Teachers who teach in schools in the language and script of national minorities.
- Professional athletes or sports professionals who work in the Republic of Croatia.
- Artists working in cultural institutions in the Republic of Croatia.
- Foreign nationals who are employed in foreign organizations that are registered as foreign N.G.O.s. in the Republic of Croatia and at least three other states.
- Foreign nationals who are members of the representative bodies of foreign foundations and trusts registered with the Register of representative offices of foreign foundations and trusts in the Republic of Croatia.
- Foreign nationals who work on youth mobility programs that the Republic of Croatia is carrying out in cooperation with other countries.
- Scientific researchers, and foreigners who are employed in scientific, scientific – educational or other research positions in academic entities.
- Teachers – native speakers of foreign languages, lecturers and other teachers who teach at Croatian universities or registered language schools.
- Foreign nationals who work on the basis of international agreements.

The stated categories of foreign nationals may be granted a stay and work permit outside the annual quota if they meet the criteria for temporary stay and if they provide the following:

- a contract of employment, or a written confirmation that a contract of employment has been concluded, or any other relevant contract.
- proof of educational background and qualifications.
- proof of the registration of a company, branch office, representative office, trade, association or institution in the Republic of Croatia.
- explanation on the justifiability of employment of a foreigner that contains information on the foreigner's professional knowledge, qualifications and work experience, and the reasons why this position cannot be assigned to a Croatian national on a labour market (apart from foreigners under items 2, 4, 5, 6 and 13).

A residence and work permit may be issued to foreign nationals referred who are to perform **key activities in a company, branch office or representative office**, except for citizens of the E.U., if they meet the criteria referred to above and if:

- the value of the company's share capital, i.e. assets of a limited partnership or a general partnership exceed the amount of 100 thousand H.R.K.
- at least 3 Croatian nationals are employed in the company, branch office or representative office of a foreign company on jobs other than the procurator, member of the management board or supervisory board, and if
- the foreigner's gross salary is at least in the amount of an average gross salary paid in the Republic of Croatia in the previous year, according to the official data published by the competent statistical agency.

If there are **several** foreign nationals performing key activities for the same employer, except for citizens of the E.U., a residence and work permit may be issued if they meet the criteria referred to above and if:

- for each foreign national employed, there are at least five Croatian nationals employed on jobs other than procurator, member of the management board or member of the supervisory board.
- the value of the company's share capital, i.e. assets of a limited partnership or a general partnership exceed the amount of 100 thousand H.R.K. , and
- the foreigner national's gross salary is at least in the amount of an average gross salary paid in the Republic of Croatia in the previous year, according to the official data published by the competent statistical agency.

Foreign nationals who are to be **self-employed** in their own company or in a company in which they hold a share of more than 51%, or in their own trade, except for citizens of the EU may be issued a residence and work permit if they meet the above criteria and if:

- they have invested at least 200 thousand H.R.K. in the establishment of a company or trade.
- at least 3 Croatian nationals are employed.
- the foreign national's gross salary is at least in the amount of an average gross salary paid in the Republic of Croatia in the previous year.
- the company or trade does not do business at a loss.
- they provide proof of having settled the tax obligations and contributions in the Republic of Croatia.

Foreign nationals– **providers of services** may be issued a residence and work permit if they meet the criteria referred to above and if the service provider is employed with a foreign employer and has adequate qualifications, and the foreign employer has concluded a contract with a company or trade in the Republic of Croatia, provided that the services concerned involve specific services in the area of high technology and that the provision of such services is in the interest of the Republic of Croatia.

Work permit outside the annual quota may be granted to foreign nationals who meet the prerequisites for temporary stay and:

1. who perform key activities in a company that is a beneficiary of incentive measures in accordance with the regulation on investment incentives, or who hold an ownership share in such company of at least 51%.
2. who perform jobs or carry out projects in the Republic of Croatia pursuant to international treaties on professional and technical assistance that the Republic of Croatia has concluded with the European Union, some other state or an international organization.

**Posted worker** is a worker who is posted by foreign employer for a limited or temporary period of time to carry out work in a state which is not a state in which he usually works.

He is posted:

- based on employment contract between with the employer-service provider during the period of posting.

- to an establishment or to an company owned by the same group to which belongs his employer.
- to a user established or doing business in the Republic of Croatia. Employer posts employee as a temporary employment agency.

Posted worker can be **E.E.A. national or national of the Third country.**

**Foreign employer** is natural or legal entity who has work residence in E.E.A.

Foreign employer has to fill in an advance declaration for posted workers, to inform Croatian authorities about its intention to post you there.

Police department/station certifies posted worker temporary permit for **third-country national** if declaration for posted workers in Croatia is submitted and he meets the conditions from article 54. and article 84. paragraph 1 by the Law on foreign nationals.

Posted worker permit for **E.E.A. national** is granted based on declaration for posted workers in Croatia, and identity card or passport of employee.

## THE CERTIFICATE OF WORK REGISTRATION

Foreigner or any legal or natural person that will be using his services are required prior to beginning work, to acquire a certificate of work registration from the police department or police station or the employer's registered office / seat. Based on an issued certificate, a foreigner can work for the same employer or service-receiver on the entire territory of Croatia, up to 30, 60 or 90 days during the calendar year.

### 2.4. Important/exemption

Foreign citizen can work in Croatia only if he has valid work and residence permit or the certificate of work registration.

### 2.5 Tips from professionals

Since regulations are changing rapidly, you should check the data on the provided web pages, or directly contact the relevant stakeholders, before giving any information or starting the permit(s) procedure for foreign investors.

### 2.6. Additional reading

More useful information about procedure for obtaining work permits can be found on the following suggested links:

Agency for investments and competitiveness. "*Residence of foreigners*" (online) . Available on: <http://www.aik-invest.hr/investicijski-vodic/dozvole-za-boravak-i-rad-i-vize/potvrda-o-prijavi-rada/> (26.02.2018.)

Ministry of the Interior Affairs. "*Residence permit in Croatia*". (online). Available on: <http://www.mvep.hr/hr/konzularne-informacije/boravak-stranaca/odobrenje-boravka-u-hrvatskoj/>(26.02.2018.)

Zakon.HR. "*The Foreigners Act*" (online). Available on:<https://www.zakon.hr/z/142/Zakon-o-strancima> (26.02.2018.)

Official web sites:

Health care Insurance (online). Available on: <http://www.hzzo-net.hr/> (26.02.2018.)

Retirement insurance (online). Available on: <http://www.mirovinsko.hr/default.aspx?id=20> (26.02.2018.)

Ministry of finance (online). Available on: <http://www.porezna-uprava.hr/Stranice/Naslovnica.aspx> (26.02.2018.)

Application Form 9a

Ministry of Interior Affairs. „*Application for issuance of stay and work permit* “ (online). Available on: [https://www.mup.hr/UserDocsImages/Dokumenti/stranci/2013/obrazac\\_9a.pdf](https://www.mup.hr/UserDocsImages/Dokumenti/stranci/2013/obrazac_9a.pdf) (26.02.2018.)

## 2.7 Quiz and exercise

### Questions

1. Which of the following documentation is not necessary for foreigners' work and residence permit based on annual quota?

- a) Proof of passed work protection exam
- b) Proof of employment
- c) Proof of obtained educational qualifications
- d) Proof of registration of a company, branch, association etc.

2. Which of the following documentation foreigner does not have to provide when applying for a residence and work permit outside the annual quota?

- a) Relevant employment proof
- b) Proof of educational background and qualifications
- c) Explanation on the justifiability of employment
- d) Proof of passed a medical examination

3. Which of the following answer is not correct?

Stay and work permit outside the annual quota; if all other criteria are fulfilled, may be issued to:

- a) Foreigner who performs key activities in a company in host country
- b) A self-employed foreigner in their own company in host country
- c) Foreigner who carries out projects in his country based on international contract.
- d) Foreigner – service provider

4. Who is a posted worker?

- a) Worker who is posted by foreign employer for a limited or temporary period of time to carry out work in a state which is not a state in which he usually works.
- b) Worker who is posted by foreign employer for an unlimited period of time to carry out work in a state which is not a state in which he usually works.
- c) Worker who is permanently posted by foreign employer to carry out work in host country in which is situated its establishment.
- d) Worker who is posted on hold by foreign employer for a limited or temporary period to provide services.

5. Which of the following answer is not correct?

The certificate of work registration is issued up to:

- a) 30 days during calendar year
- b) 60 days during calendar year
- c) 90 days during calendar year
- d) 120 days during calendar year

**Exercise 1**

Help your client who will hold key position in company to submit a request for residence and work permit outside the annual quota, and attach all the necessary documents.

Write your answer: \_\_\_\_\_

**Correct answer:**

**Rate your answer:**

1. correct
2. partially correct / incomplete
3. incorrect



### 3. Procedure for obtaining visa, permanent permit and citizenship

#### 3.1. Overview/theoretical framework

This Unit is designed to introduce the procedure and conditions for obtaining visa, permanent permit and Croatian citizenship for foreign nationals that you, as F.D.I. advisor should know about.

After acquiring knowledge from this Unit, you will be qualified to pass the information on procedure of obtaining visa, permanent permit and Croatian citizenship to foreign nationals.

#### a.i.1. 3.2. Procedure of obtaining visa

A visa is approval for transit through the territory of the Republic of Croatia or residence on the territory of the Republic of Croatia for the longest period of 3 months in every six-month period beginning on the date of the first entrance to the territory of the Republic of Croatia and transit through transit area of an international airport.

Types of visas are:

- airport transit visa (visa A.),
- short-term visa (visa C.).

Visas are issued by diplomatic missions or consular offices of the Republic of Croatia abroad. They can be issued by the diplomatic mission or consular office of another country with which the Republic of Croatia has signed a visa issuing agreement. Exceptionally, if the foreigner presents documents providing unpredictable and unavoidable reasons for entering the Republic of Croatia, a visa may be issued by the authorities competent to monitor the border crossing.

A foreigner who comes to visit a private or legal person in the Republic of Croatia may be required to attach a letter of guarantee and / or other evidence that the individual or the legal entity will bear the cost of his stay in Croatia, including the cost of accommodation and living costs, as well as the costs of leaving the Republic of Croatia.

A foreigner who applies for a short-stay visa must show that he has adequate and valid travel health insurance. In the case of multiple entries into the country the foreigner also needs a signed statement of commitment of possession of travel health insurance for all subsequent visits.

A foreigner who resides in the Republic of Croatia with a visa, as a rule, cannot have his visa extended. Exceptionally, the validity and / or duration of the residence issued on the basis of issued visas can be extended due to force majeure, humanitarian or serious personal reasons.

An application for a visa shall be submitted on the prescribed form up to 3 months prior to the intended travel. In the case that foreign nationals have collective travel document (for example mother and child), each of them shall apply for a visa on a separate form.

The request for extension of visa shall be submitted to the police department / station, according to the place of residence of the foreigner before the expiry of the current visa. The request is decided upon the Ministry of Interior. By making the decision to extend the visa, a foreigner can stay on the Croatian territory.

Based on the visa, a foreigner cannot work on the Croatian territory.

[Valid forms for visa](#) can be found on the web page of Ministry of Exterior and European Affairs.

### **3.3. Procedure of obtaining permanent residence**

Permanent residence may be granted to a foreigner who at the time of submitting the application has uninterrupted period of temporary residence for 5 years. It is considered that the foreigner resided continuously in the Republic of Croatia, if during a period of five years he was absent for up to 10 months or up to 6 months at once. A foreigner must have temporary stay in the Republic of Croatia at the time of deciding on the application for permanent residence.

Permanent residence will be granted to a foreigner who meets the following conditions:

1. has a valid foreign passport,
2. has the means to support himself,
3. has health insurance,
4. knows the Croatian language and the Latin alphabet and the Croatian culture and social organization,
5. poses no threat to public order, national security or public health.

Returning foreigners and refugees do not have to meet the requirements of the items 2, 3 and 4 above.

Application for permanent residence shall be submitted at the police department / station authorized according to the place of residence of the foreigner, and the application shall be decided by the Ministry of Interior.

### 3.4. Procedures for obtaining citizenship

The Croatian Citizenship Act regulates Croatian citizenship, the prerequisites for its acquisition and its termination.

#### **The Croatian citizenship is acquired on the grounds of:**

- origin,
- being born in the Republic of Croatia,
- naturalization,
- international treaties.

Persons who have acquired Croatian citizenship on grounds of origin or being born in the Republic of Croatia are registered into the Register of citizens when they are registered into the Birth register. Request for registering in the Register of citizens can also be submitted at a diplomatic mission or consular office of the Republic of Croatia abroad.

The procedure of acquiring Croatian citizenship on grounds of origin or being born in the Republic of Croatia is handled by the competent state administration offices i.e. city office of the City of Zagreb.

Request for acquiring Croatian citizenship on grounds of naturalization should be submitted at the competent police authority i.e. police station. Physically challenged persons can submit the request via their legal representative or attorney.

Request for acquiring Croatian citizenship on grounds of naturalization can also be submitted at diplomatic missions or consular offices of the Republic of Croatia abroad.

The procedure of acquiring Croatian citizenship on grounds of naturalization or international treaties is handled by the Ministry of the Interior.

Request for acquiring Croatian citizenship ([Form 1](#)) can be found on the web site Ministry of Interior.

At the end of the “Form 1” there is a list of documentation that needs to be provided; with detailed instructions except for the curriculum vitae.

The curriculum vitae submitted along with the application and other documentation should contain:

- personal data
- education
- employment
- residence or address abroad
- marital status
- information about children
- information about parents
- information about next of kin who have acquired Croatian citizenship

The applicant should state the reasons for applying for citizenship, their relation towards the legal order, customs and acceptance of Croatian culture; depending on the legal basis for submitting the application, where his ancestors were domiciled before leaving, when and why they left the Republic of Croatia, when and with what documents they settled abroad, the ways in which they showed they belonged to the Croatian people; participation in sports, cultural and other societies promoting Croatia's interests abroad (Article 11 and 16).

### **3.5. Important/ exceptions**

When submitting the request, the applicant must give a statement for the record on the legal basis on applying for citizenship as well as all the circumstances relevant for issuing a decision on granting the citizenship not stated in the curriculum vitae.

Visa issuing policy is completely coordinated with Visa issuing policy in E.U.

### **3.6. Tips from professionals**

You should check the recent data on relevant authorities' web pages or directly contact the responsible office (Ministry of Interior or consulate), before giving any information or starting the permit application procedure for the foreign investor.

### **3.7. Additional reading**

More information about procedure for obtaining visa, permanent permit and citizenship can be found on the presented list of recommended web sites:

More information for obtaining Croatian citizenship:

Ministry of Foreign and European Affairs: "Acquiring Croatian citizenship" (online). Available on: <http://www.mvep.hr/en/consular-information/citizenship/acquiring-croatian-citizenship/> (26.02.2018.)

Foreign nationals' permits:

Agency for Investments and Competitiveness. "*Foreign nationals residence*" (online). Available on: <http://www.aik-invest.hr/investicijski-vodic/dozvole-za-boravak-i-rad-i-vize/boravak-stranaca/> (26.02.2018.)

Online visa application form:

Ministry of Foreign and European Affairs. "Acquiring visa" (online). Available on: <http://crovisa.mvep.hr/default.aspx?langId=en> (26.08.2018.)

Visa regulations:

Ministry of Foreign and European Affairs. "Regulations" (online). Available on: <http://www.mvep.hr/en/consular-information/visas/regulations/> (26.02.2018.)

Visa regulations:

Agency for Investments and Competitiveness. "Visas" (online). Available on: <http://www.aik-invest.hr/investicijski-vodic/dozvole-za-boravak-i-rad-i-vize/vize/> (26.0.2018.)

Application Form for Visa

Ministry of Foreign and European Affairs. "Forms" (online). Dostupno na: <http://www.mvep.hr/hr/konzularne-informacije/vize/obraci/> (26.02.2018.)

Request for acquiring Croatian citizenship (Form 1)

Ministry of Interior. "Form 1" (online). Available on: [https://www.mup.hr/UserDocsImages/Dokumenti/drzavljanstvo/obrazac1\\_stjecanje\\_prirodjenje\\_punoljetni.pdf](https://www.mup.hr/UserDocsImages/Dokumenti/drzavljanstvo/obrazac1_stjecanje_prirodjenje_punoljetni.pdf) (26.02.2018.)

### 3.8. Quiz and exercise

#### Questions

1. A person who has Visa permit, has a permit for transit through the territory of the Republic of Croatia or residence on the territory of the Republic of Croatia for the period no longer than 3 months in every six month period from the date of his first entrance to the territory of the Republic of Croatia, and ...?

- a) Family reunification
- b) Employment in host country
- c) Transit through transit area of an international airport
- d) Permanent residence

2. What must a foreigner submit when he/she applies for a short-stay Visa?

- a) Proof of employment in his country
- b) Proof of valid travel health insurance
- c) Proof of employment intention in host country
- d) Proof of private property insurance

3. Permanent residence may be granted to a foreigner who at the time of submitting the application in host country has uninterrupted period of temporary residence for:

- a) Three years
- b) Five years
- c) Seven years
- d) Ten years

4. It is considered that a foreigner has resided continuously in host country, if during the period of five years he was absent for up to:

- a) Up to ten months or up to six months at once
- b) Up to ten months at once or multiple times up to six months
- c) Multiple times up to six months or up to ten months at once
- d) Up to six months at once or multiple times up to ten months

5. A foreign will not be granted permanent residence if he:

- a) Has not valid health insurance in host country
- b) Has not employment contract for an indefinite time
- c) Has not proof of means to support himself
- d) Does not know host country language in written

6. Citizenship by naturalization in the host country cannot be acquired on the grounds of:

- a) Residence in the host country
- b) Marriage or life partnership with the citizen of the host country
- c) Real estate possession in the host country
- d) Being born in the host country

7. On grounds of international treaties, the procedure of acquiring host country's citizenship is handled by the:

- a) Registry office
- b) Ministry of Foreign Affairs
- c) Ministry of Labour and Social Welfare
- d) Ministry of Interior

### Exercise 3.

Help citizen from third country to apply for visa so he can start and run a business in Croatia.  
Write your answer: (which Form should be filled and which documentation must be attached):

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**Correct answer:**

**Rate your answer:**

- 1. correct
- 2. partially correct / incomplete
- 3. incorrect

## 4. Conditions and procedures for family reunification in host country

### 4.1. Overview/theoretical framework

Within this Unit you will get familiar with additional conditions which must be fulfilled (along with the general conditions) by foreign national family members in order for family reunification in Croatia.

After acquiring knowledge from this Unit, you will be able to:

- identify differences in the procedure of family reunification in Croatia
- inform and lead foreign national family member through the procedure of obtaining residence permit with the aim of family reunification.

### 4.2. Family reunification

A third-country national, who is married to a Croatian national and plans to stay in Croatia longer than three months is obliged to submit no later than eight days before the three-month period is over an application for a **residence card of a family member of E.U. citizen**, which proves the right of temporary residence.

The family member shall be issued a residence card if he/she:

- has a valid passport,
- encloses documents proving that they are a family member,
- does not pose a threat to public order or national security,
- is not banned from entering and staying in Croatia.
- Does not represent risk for public policy, national security, or public health.
- Has a proof of sufficient means of subsistence,
- has proof of health insurance.

Valid forms are available on the web page of [Ministry of Foreign and European Affairs](#).

Regardless the request is submitted to the diplomatic mission / consular office or to the police department/ Station. Decision of the request is issued by the Ministry of Interior through the police station.

A third-country national who is member of the Family of third-country national who have permanent or temporary permit, shall apply for temporary residence under the same conditions.

For obtaining visa, permanent permit or citizenship members of the family must meet the same conditions as described in the previous sections.

A third-country national who has one-year residence permit based on annual quota can apply for temporary residence based on family reunification only if a member of his family, third country national already had at least two years' residence in Croatia.

### 4.3. Important/exemption

If foreign national's request is accompanied with document from foreign country, it should be translated on Croatian language and verified by authorised translator.

When needed, it should request an Apostille of above mentioned documents, before translating them.

### 4.4. Tips from professionals

Since conditions are changing rapidly, it is necessary to check the valid data on web pages, or direct contact the responsible authority (Ministry of Interior or consulate) before giving any information or starting the family reunification process.

### 4.5. Additional reading

In additional reading you can find more useful information about conditions and procedures for family reunification in host country.

Who can acquire Croatian citizenship?

Ministry of Foreign and European Affairs. "*Citizenship acquisition*" (online). Available on: <http://www.mvep.hr/hr/konzularne-informacije/drzavljanstvo/stjecanje-hrvatskog-drzavljanstva/> (26.02.2018.)

All at one place: short-term, temporary and permanent residence, visa

Agency for Investments and Competitiveness. "*Third-country citizen stay*" (online). Available on: <http://www.aik-invest.hr/investicijski-vodic/dozvole-za-boravak-i-rad-i-vize/boravak-stranaca/> (26.02.2018.)

All about residence permit in Croatia (including family members)

Ministry of Foreign and European Affairs. "*Residence permit in Croatia*" (online). Available on: <http://www.mvep.hr/hr/konzularne-informacije/boravak-stranaca/odobrenje-boravka-u-hrvatskoj/> (26.02.2018.)

Requests for acquisition, identifying and termination of Croatian citizenship

Ministry of Foreign and European Affairs. "*Request for acquisition, identifying and termination of Croatian citizenship*" (online). Available on: [http://www.mvep.hr/hr/dokumenti-i-obraci/obraci/zahtjev-za-otpust\\_odricanje-drzavljanstva-rh0/](http://www.mvep.hr/hr/dokumenti-i-obraci/obraci/zahtjev-za-otpust_odricanje-drzavljanstva-rh0/) (26.02.2018.)



## 4.6. Quiz and exercise

### Questions

1. A third country citizen, who is married with Croatian citizen, should submit an request for temporary residence for the purpose of family reunification when plans to stay in host country longer than:

- a) three months
- b) six months
- c) twelve months
- d) twenty four months

2. Temporary residence for the purpose of family reunification is issued by the:

- a) Foreign consular office in Croatia
- b) Police station in foreign country
- c) Police station in Croatia
- d) Croatian consular office in foreign country

3. What is Apostille?

- a) Extra authentication of document on foreign language
- b) Extra authentication of foreign document after translating on host language
- c) Extra authentication of translator's signature
- d) Extra authentication of foreign document before translating on host language

### Exercise 4.

Temporary stay for the purpose of family reunification may be permitted to a member of family which holder of the family has „EU blue card“.

Investigate and give instructions to your client: where he can apply and find relevant Form to fill in.

Write your answer: \_\_\_\_\_

**Correct answer:**

**Rate the answer:**

- 1. correct
- 2. partially correct / incomplete
- 3. incorrect

## 5. Public and other institutions providing support and guidance

### 5.1. Overview/ theoretical framework

This Unit contained information about public and other institutions providing support and information to foreign nationals during their residence in Croatia, which you should be familiar with.

After acquiring knowledge from this Unit, you will be able to:

- inform foreign national of public and other institution providing support,
- connect foreign nationals with public and other institutions in line with their needs,
- use services and information of public and other institutions.

The most important public and other institutions providing support to the Foreign Nationals residence in Croatia are:

[Ministry of Foreign Affairs.](#)

[Ministry of the Interior.](#)

[Ministry of Finance RH, Tax Department.](#)

[Croatian Employment Service.](#)

[Ministry of Labour and Retirement System.](#)

[Croatian Institute for Health Insurance.](#)

[Croatian Pension Insurance Institute.](#)

[Competitiveness and Investment Agency.](#)

[Foreign Investors Council.](#)

[Lawyer office](#) which provide services to the foreign nationals free of charge.

### 5.2. Other useful information

#### 5.2.1. Intellectual property

Intellectual property is one of the most valuable item in a company's asset and one of very important components in the business world in general.

Croatia is a member of the World Intellectual Property Organization (W.I.P.O.) and is a signatory of all important international instruments in the field of intellectual property. As a full W.T.O. member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights.

From 1 July 2013 Community Trademark System and Community Design are also applicable within the territory of the Republic of Croatia. From that date a new intellectual property right is also introduced – an Unregistered Community Design. This right is acquired without formal registration procedure, through the public disclosure within the European Union, and refers to the prohibition of abuse by the reproduction of protected designs.

Likewise, from 1 July 2013 new legal institutes are introduced in area of patent rights – Supplementary Protection Certificate for Medicinal Products intended for humans and animals as well as for plant protection products which provide the possibility of additional extensions of the basic patent protection for medicines intended for humans and animals as well as plant protection products.

Finally, some activities related to the protection of intellectual property rights in the Republic of Croatia may be performed, beside the natural and legal persons from the Republic of Croatia under the same conditions by those coming from the European Union.

Texts of relevant laws are available on the website of the official body for the registration of intellectual rights, [the State Intellectual Property Office](#).

### **5.2.2. Legal verification of documents in the international legal traffic**

Public documents issued abroad may be used in the Republic of Croatia if they are legalized in accordance with the regulations of the country of issuance and

- verified in a Croatian diplomatic or consular mission in that country (with the translation in Croatian), or,
- verified in the diplomatic / consular mission of that country in the Republic of Croatia and are legalized (verified) in the Ministry of Foreign and European Affairs of the Republic of Croatia,

unless it is otherwise provided by bilateral or multilateral agreements.

In the event that the Republic of Croatia has no diplomatic / consular mission in the country issuing the document, nor does that country have diplomatic / consular mission in the Republic of Croatia, the legalization (verification) is carried out in a third country in which both countries have a diplomatic / consular mission as follows:

- after the certification of documents by the competent authority of the country in which they are issued,
- documents are verified by country's diplomatic / consular mission in a third country,
- then by the ministry of foreign affairs of the third country, and finally
- by the diplomatic / consular mission of the Republic of Croatia in that third country.

### 5.2.3 .Recognition of foreign education qualifications in Croatia

#### *Recognition of primary and secondary school qualifications:*

Under the authority of [Education and Teacher Training Agency](#): **recognition of qualifications attesting the completion of primary education and general, gymnasium and art secondary education programmes (for the purpose of employment or continuation of education).**

Under the authority of [Agency for Vocational Education and Training and Adult Education](#): **recognition of qualifications attesting the completion of vocational secondary education programmes (for the purpose of employment or continuation of education).**

**Under the authority of the school at which the applicant wishes to pursue his/her education: recognition for the purpose of continuation of primary or secondary education.**

**Under the authority of the secondary school at which the applicant wishes to pursue his/her education: recognition of primary education for the purpose of access to secondary education.**

#### *Recognition of higher education qualifications and a period of study:*

- Under the authority of Croatian universities, \_Polytechnics and colleges: for the purpose of the continuation of education in Croatia (academic recognition and recognition of periods of study).
- Under the authority of [the Agency for Science and Higher Education, Croatian E.N.I.C./N.A.R.I.C. Office](#): for the purpose of employment in Croatia (professional recognition).

#### *Recognition of specializations and professional examinations*

Under the jurisdiction of the authority of a relevant ministry and professional organizations.

Recognition of foreign higher education qualifications is carried out for the purpose of employment (professional recognition), or continuation of education (academic recognition) in the Republic of Croatia, and is based on the Act on Recognition of Foreign Educational Qualifications.

**More information about recognition of foreign higher education qualifications can be found in Annex 6.5.**

#### 5.2.4. Education

Foreign national family members who live in Croatia can use services of:

- international bilingual school,
- kindergarten on foreign language
- Croatian language - course for foreigners (general, fast, intense).

#### 5.3. Important/exceptions

Small cost of supplementary health insurance (beside basic health insurance) covers high medical expense – You F.D.I. advisors should recommend it to their clients.

#### 5.4. Tips from professional

In all procedures you need to check which documents need to be translated or if they required Apostille, to prevent unnecessary expenses, prolongation or rejection in the specific case.

#### 5.5. Additional reading

In additional reading you can find more information about public and other institutions providing support and guidance.

Basic information about Republic Croatia, civil society organisations and all other useful information for foreign nationals.

HZZ.HR. *A Guide through Integration. Basic information for integration foreign nationals into Croatian society* (online). Available on: <http://www.hzz.hr/UserDocsImages/Vodi%C4%8D%20kroz%20integraciju%20-%20Osnovne%20informacije%20za%20integraciju%20stranaca%20u%20hrvatsko%20dru%C5%A1tvo.pdf> (26.02.2018.)

Official body for the registration of intellectual rights

The State Intellectual Property Office. (online). Available on: <http://www.dziv.hr/hr/> (26.02.2018.)

Act on Recognition of Foreign Educational Qualifications.

Zakon.hr. “*Act on Recognition of Foreign Educational Qualifications*” (online). Available on: <https://www.zakon.hr/z/500/Zakon-o-priznavanju-inozemnih-obrazovnih-kvalifikacija> (26.02.2018.)

## 5.6. Quiz and exercise

### Questions

1. Who is providing (no charge) legal help to foreign citizens?

- a) Legal department of Ministry of Foreign Affairs
- b) Foreign Investors Council
- c) Public notary
- d) Selected law firms

2. Which official body is authorized for registration of intellectual rights?

- a) State Intellectual Property Office
- b) Public Institute for Intellectual Rights
- c) Association of innovators
- d) State association of intellectual property

3. Under whose authority is recognition of attesting completion of primary education and general, gymnasium and art secondary education programmes for the purpose of employment or continuation of education?

- a) Under Ministry of education
- b) Under Employment service
- c) Under Education and Teacher Training Agency
- d) Under Agency for Vocational Education and Adult Education

### Exercise 5.

Investigate how can foreign citizen legalize his document if:  
host country has no diplomatic mission in his country, and in host country there is no diplomatic mission of his country.

Write your answer: \_\_\_\_\_

**Correct answer:**

**Rate your answer:**

- 1. correct
- 2. partially correct / incomplete
- 3. incorrect

### Sources

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Official web sites of the Croatian Employment Service (online). Available on: <http://www.hzz.hr/default.aspx?id=10080> (26.02.2018.)

Official web sites of the Ministry of Labour and Retirement System(online). Available on: <http://www.mrms.hr/> (26.02.2018.)

Official web sites of the *Foreign Investors Council* (online). Available on: <http://www.ficc.hr/> (26.02.2018.)

Foreign Investors Council. "*White Book*" (online). Available on: <http://www.ficc.hr/hr/bijela-knjiga/> (26.02.2018.)

Central State portal. "*International foreign national protection information*"(online). Available on: <https://gov.hr/moja-uprava/pravna-drzava-i-sigurnost/strani-drzavljanu-rh/medjunarodna-zastita/1827> (26.02.2018.)

HZZ.HR. *A Guide through Integration. „Basic information for integration foreign nationals into Croatian society“* (online). Available on: <http://www.hzz.hr/UserDocsImages/Vodi%C4%8D%20kroz%20integraciju%20-%20Osnovne%20informacije%20za%20integraciju%20stranaca%20u%20hrvatsko%20dru%C5%A1tvo.pdf> (26.02.2018.)

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## **Annex 6.5. PUBLIC AND OTHER INSTITUTIONS PROVIDING SUPPORT AND GUIDANCE**

### **Recognition of foreign higher education qualifications**

**The Republic of Croatia has been carrying out the procedure of recognition of foreign higher education qualifications as of 1 July 2004, in accordance with the Act on the Recognition of Foreign Educational Qualifications, which is based on the principles of the Convention on Recognition of Higher Education Qualifications in Europe and the Act on Ascertaining of the Convention on the Recognition of Qualifications concerning Higher Education in the European Region.**

For the purpose of enabling access to employment in the Republic of Croatia, the Agency carries out the procedure of professional recognition of foreign higher education qualifications.

The recognition criteria of foreign higher education qualification are:

- That a higher education institution which awarded a qualification had been accredited by a competent [accreditation](#) body in the state in which it is located;
- **That a higher education qualification was awarded by an accredited higher education institution;**
- That a foreign higher education programme had been accredited by a competent accreditation body of the respective state;
- When a [joint degree](#) is concerned, all institutions participating in the delivery of the study programme, as well as the study programme itself, have to be accredited by a competent accreditation body of the respective state in which the institution participating in the joint degree is located.

## **Module 7 - REAL ESTATE INVESTING**

By successfully mastering the "Real Estate Investing" module, the student will become familiar with the basic features of the real estate market in the Republic of Croatia, which is conditioned by a wide range of legislative provisions that determine rights in rem in immovable property. With the knowledge gained by completing this module, the participant will be able to provide the potential foreign investor with the necessary information for a safe and successful investment in real estate on the territory of the Republic of Croatia.

## Glossary

**Real estate agencies** - real estate agencies are companies that make it easier for people to sell, buy, rent or exchange a real estate with the purpose of earning a commission for brokerage.

**Real estate agents** - independent and professional persons who, with a financial compensation, sell or lease real estate on behalf of other people.

**Energy certificate** - energy certificate is a document which states the energy properties of the building and it is made by authorized persons for energy certification. The document is valid for the period of ten years from the date of its issuance.

**Construction land** – land which is constructed or designated by spatial planning documents for the building of residential or other buildings and for public areas.

**Real estate cadastre** - records on land parcels, buildings and other constructions permanently lying on or below the land surface and on special legal regimes on the land surface, unless otherwise provided by law. Real estate cadastre tasks include determination of cadastral spatial units, cadastral survey and technical reambulation, construction and maintenance of cadastral records of real estate, the maintenance of cadastre of land and its gradual adaptation to real estate cadastre, individual transmission of cadastral parcels into real estate cadastre.

**Real estate** - a particle of the land surface (land, land parcel, cadastral parcel) together with everything that is relatively permanently connected to it on the surface or below it, unless otherwise provided by law.

**Possession title** – property sheet; sheet A; a part of the land registry file or subfile

**Brokerage fee** - amount to be charged for brokerage on the real estate market

**Entrepreneurial zones** – infrastructurally equipped areas defined by spatial plans, designed to carry out certain types of entrepreneurial or economic activities. The basic characteristic of entrepreneurial zones is the common use of infrastructurally equipped and organized space by entrepreneurs and other users whose business activities within the entrepreneurial zone and the use of the available resources of the entrepreneurial zone are being rationalized.

**Entrepreneurship support institutions** - institutions focused on creating of a quality, user-oriented entrepreneurial environment in the Republic of Croatia and which are implementing entrepreneurship development programs.

**Business incubators** - registered legal entities providing professional technical and educational assistance in starting entrepreneurial ventures and enterprises and in their fast and

sustainable development, including commercial property under more favourable conditions for beginner entrepreneurs, up to the third year of business.

**Entrepreneurial incubators** – they provide support for the successful development of entrepreneurship through business services and resources for entrepreneurs, including commercial property under more favourable conditions for beginner entrepreneurs.

**Real estate legal status** – rights in rem and other rights related to real estate as well as other facts relevant to legal transactions that are entered into land registers and which are important in legal transactions.

**Free zones** - free zones have been established on the basis of the decisions of the Government of the Republic of Croatia in accordance with the provisions of the law regulating the establishment, management and operation of free zones in the Republic of Croatia.

**Encumbrance** - sheet C; a part of a land registry file or sub-file

**Entries in the land registry** - the right of ownership and other rights in rem in immovable property, then the buyback rights, rights of pre-emption, rent, lease, as well as concessions and other property rights that are permitted by special law; limitations, deposits and conditioning of rights by annotating the limitations, deadlines or conditions to which the right is subject to; they are only allowed against the predecessor; they are determined by a decision and are carried out by the competent land registry court.

**Ownership certificate** – sheet B; a part of the land registry file or sub-file

**Land** - a part of the land surface that is in the cadastre designated by a special number and the name of the cadastral municipality in which it is lying (cadastral parcel). (2) The area where geodetic measurements of land determine the location, shape and surface and the data on some properties are collected. Geographically, the land can be flat, hilly, mountainous and so on; in the economic sense it can be forest, agricultural, construction and other; in property sense, it can be state land, private land and others.

**Land registry** – a system of public registers (records) on legal status of real estate, relevant for legal transactions; the registry system that enables the registration of real estate, the way of acquiring rights in rem in immovable property prescribed by law, and it also enables and provides legal certainty in real estate transactions; it is a system that makes accessible and visible to everyone the legal status of real estate relevant for legal transactions; it is a system of public registers consisting of specific manually managed land registers and land registers managed by electronic data processing (EDP land registry).

**Land registry extract** - a public document containing a copy of the data from the land registry; a print from the EDP land registry is issued which substitutes it.

**Land registry file** - a part of the land registry in which only one land registry body is entered, as well as rights in rem and other rights in respect of that land registry body and its alterations, and other facts about the body designated by law; it contains the owner, the possession title, ownership certificate and encumbrance sheet; may contain sub-files.

**Land registry entry** – a book entry; registration or annotation; the essential content of the rights that are legally determined to be the subject to a land registry entry; it is the presumption of acquisition, transfer, restriction or the termination of right when it is prescribed by law.

**LIS** - land information system – a computer system for collecting, storing, processing, analyzing and displaying the data regarding land, its use and the owner.

## **1. The basics of rights in rem and national legislation**

### **1.1. Theoretical framework**

With regard to investment in real estate, every person must be familiar with the basic terms and obligations related to rights in rem in immovable property. Real estate investment should primarily be understood as the acquisition of certain rights and obligations. In this part, ownership is a fundamental right, where any natural or legal person may be a property right holder. In addition to the property right, there are other real rights, such as the right of way, encumbrance rights, construction right and pledge right related to everything that may be the object of these rights. However, the legal institute of the ownership is the only type of an ownership right. Therefore, rights in rem can be classified as rights in own things (ownership) and in other persons' things (other real rights).

### **1.2. Important: Types of rights in rem in immovable property**

Rights in rem in immovable property that are entered into the land registry are determined in accordance with the principle of a closed number of rights in rem and in accordance with the Property Act and other rights in rem. These are the ownership right, the right of way, encumbrance, the right of construction and the pledge right, as well as a mortgage. Those rights in rem for which the law prescribes so are not entered into the land registers, that is, which operate absolutely and without entering into the land registry (e.g. public encumbrance, unclassified roads, etc.).

#### **1.2.1. Land registers**

Land registers are public registers in which the data on the legal status of real estate relevant to legal transactions are entered. A land registry consists of the general registry and the collection of documents. Land registers are kept in land registry offices at municipal courts.

A cadastre is a record containing land parcel data and data on buildings permanently lying on or below the land surface and on special legal regimes regarding the land surface. Cadastral records are kept by the regional offices for cadastre of the State Geodetic Administration and the City Office for Cadastre and Geodetic Activities of the City of Zagreb.

Land registers are public registers in which individual real estates, land or parts of land that are in the land cadastre enumerated by special numbers and by the name of a cadastral municipality are entered. Buildings and other construction objects that are relatively

permanently connected to or are under the surface of the land are not subject to special and independent registration into land registers, nor can they themselves be the object of ownership and other rights in rem (Josipović, 2013). In accordance with the principle of the legal unity of real estate, buildings and other construction objects together with the land on which they are constructed constitute an individual real estate. Land registers include all real estate that may be included in legal transactions, that is, which can be subject to ownership rights and other rights in rem. That real estate is entered into land registers in accordance with the state in the land cadastre and the cadastral data on the number, surface, land development level. An individual real estate is entered into land registers as land registry units that may consist of one or more cadastral parcels (land) located in the same cadastral municipality.

### 1.2.2. Land registry extract

A land registry extract is the only proof of ownership or of any other right that may be subject to registration in the land registry. The land registry extracts have the probative value of public documents.

The land registry extract consists of three parts:

- the possession title (sheet A) in which the property is entered, i.e. its main features: cadastral number, name, area, buildings, etc.
- the ownership certificate (sheet B) in which the owner of the property is registered. The sheet may contain, if any, the restrictions that the owner is personally subject to with regard to free management or disposal of a land registry unit or a co-owned part.
- the encumbrance sheet (sheet C) showing whether the property is encumbered with third-party rights, such as a mortgage, buyback right, right of pre-emption, rent or lease right, repurchase right, concession and whether there is an enforcement or a court seal.

### 1.3. Experts' tips

If you know the number of the cadastral parcel and/or the land registry file and the name of the cadastral municipality, you can check the land registry extract on the Joint Information System of Land Registry and Cadastre (ZIS) on the Ministry of Justice and the State Geodetic Administration websites.

### 1.4. Additional sources

- Insight into ownership certificates:  
<https://oss.uredjenazemlja.hr/public/lrServices.jsp?action=publicLdbExtract>

- The role of a land registry in legal transactions:  
<http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-6/6-forum-Uloga-zemljisnih-knjiga-u-pravnom-prometu-nekretnina.pdf>

### 1.5. Exercise and questions

#### 1. Questions

1. Property ownership can be checked by insight into the land registry extract and it is stated in:

1. Sheet A
2. Sheets A and B
3. Sheet B
4. Sheet C

2. What is a land registry extract?

1. A land registry extract is the only proof of ownership or of any other right that may be subject to the registration in the land registry.
2. A land registry extract is the only proof of the particle size that may be subject to the registration in the land registry.
3. A land registry extract is the only proof that can be subject to the registration in the land registry.
4. A land registry extract is the only proof of right of way that may be subject to registration in the land registry.

2. Exercise

Please find on the Internet the official website of the Republic of Croatia that provides an overview of the general register, i.e. a public insight into the land registry.

Answer:

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## **2. The basics of investment and financial determination of real estate prices**

### **2.1. Theoretical framework**

In this section, the mentor will be familiarized with the basics of investment and pricing in order to realize the purchase of a real estate. First of all, a potential investor has to know in what way a certain real estate will be included in his business story and what are real estate prices in a given area. After gathering all the necessary and relevant information, the investor can decide to buy the property, but there are also authorized persons who can ensure that the investor pays real and market value.

### **2.2. Important: Real estate investments**

When investing in real estate, it is certainly advisable to estimate the real estate. The real estate valuation in the Republic of Croatia is regulated by the Property Valuation Act. The valuation of the property is important in order to determine its value at the present moment, taking into consideration potential impacts in the future. The real estate value represents the amount of all kinds of profit that this property can bring, expressed in cash. The real estate sale price is the actual amount paid for it, and which is affected by the salesperson's skills, as well as the deadline for the sale, the external influences and the like.

The real estate valuer's task is, by using various methodologies, to predict the real estate sale price, but also to determine the possible profits that the real estate can bring in the foreseen time, and to express it all in cash.

When evaluating, i.e. determining the value of a real estate, it is necessary to determine the way or method by which the objective value of the real estate will be determined and which is based on the elements that determine that value. The elements that determine the value of the real estate are:

- properties, geometric and position elements (surface, shape, location, distance, ...)
- legal regulation, free market
- socio-economic elements
- saturation, supply-demand
- legality, consistency.

A real estate valuation can only be carried out by authorized persons: permanent court expert witnesses and valuers.

The Property Valuation Act refers solely to the market value of the real estate, which is assessed using three methods and seven procedures. The way in which the data is collected and which valuers obtain by applying the prescribed methodology and then evaluate and use it is also prescribed. In case of violation of the law, a supervision and sanctions are prescribed.

The Ministry has finished the first phase of the Real Estate Information System *eNekretnine* which provides authorized real estate valuers and agents with an easy access to useful information necessary for their high-quality professional work. This database is important to ensure the transparency of the real estate market.

### **2.2.1. Financing real estate investments**

Taking into account the possibilities of independent and external financing, that is, direct and indirect financing of real estate, indirect financing is usually carried out through national or commercial banks that can offer to the investor a portfolio of real estate services. In addition to lending, various services can be found on the market that can make it easier for a potential investor to make financing decisions.

Regarding the abovementioned services, it is important to point out the valuation of the real estate market value, including the determination of the construction and market value and the verification of the legal status, i.e. comparing the data in the ownership and spatial documentation with the real data, i.e. the identification of the object.

Furthermore, various consulting services related to real estate also apply to:

- real estate market analysis
- proposals for optimal project solutions
- conducting of cost-effectiveness analysis and giving opinions regarding a market justification of a real estate
- financial supervision
- professional supervision
- independent control and validation of project documentation (projects, contracts, contract cost estimates, work schedule, permits and licensees of designers, supervisors and contractors)
- permanent or periodic technical supervision over construction that ensures that loan payments are accompanied by a real progress in construction and that the funds paid are spent in accordance with a predefined plan
- analysis of contract cost estimates – a description control, the definition of quality level for individual contract items, comparison of prices with regular market prices.

## **2.3 Experts' tips**

Below are some important rules regarding investing in real estate (Jutarnji list, 2006):

### **1. Ownership certificate**

A clear title is the basis of any purchase. It is necessary to check in the land registry whether the real estate is free of all encumbrances, and it is also important to check whether there is illegal construction on the property.

### **2. Location**

A location is one of the most important conditions that determine the real estate price. For a family life, a real estate that is located near the sea, close to schools, kindergartens, parks, sports grounds, shops ... is always more attractive. On the other hand, investors are looking for a real estate that has good traffic connections, and which is visited by many people. An important source of information on the quality of the location is general urban plans that will reveal what kind of facilities have been planned in a specific area.



### 3. Neighbourhood

A neighbourhood is another element that determines the price. It refers to elements of other structures and facilities in the environment. Unlike a location, a neighbourhood is an important element of a subjective standpoint and refers to the social environment of a real estate. For example, the abovementioned element refers to whether the real estate is located near a noisy factory or there are neighbours who could hinder everyday work, etc.

### 4. The quality of a building

Despite the advancement of technology, the best quality buildings are still considered those made of the classical material, such as bricks and stone. Old buildings with thick brick walls which are an excellent insulation, high-quality wooden joinery, spacious staircases, yard and parking lot are considered to be of the higher quality in comparison with the new, fast-erected reinforced-concrete buildings. It is important that the building has all the supplies and connection and that the gas, water, sewage and electricity networks in the neighbourhood are in good condition and have sufficient capacity.

### 5. Maintenance of the building

The condition of the roof, facade, staircase and installation affects the height of the maintenance fees. The social structure of people in the building is also important: many older tenants do not have enough income to pay the maintenance fees or repay loans for renovation of facades, roofs and the like, so the building is rapidly decaying and losing its value.

### 6. Apartment equipment

The layout of the rooms in the apartment makes its functionality. The trend in new buildings is to build as many rooms on as few square meters as possible, to make the apartment easier to sell. The classical equipment of most new buildings in Croatia includes parquet, Italian or Spanish ceramic tiles, Italian ceramics in bathrooms and plastic joinery. When purchasing a second-hand apartment, the estimate of the equipment is much more complex. A drywall on the walls and lowered ceilings can hide uneven walls and moisture. A floor at various levels can hide the fact that it is partially rotten, and a carpet placed all over the floor can hide moisture or also a rotten floor. It is certainly necessary to move the furniture away from the walls and see if there is moisture behind it and also to check with the neighbours whether there have been any leakage problems, etc.

### 7. Location revenue

It is important whether the value of the property purchased will be similar or significantly lower in 20 years and whether it will be possible to sell or rent it quickly within a certain period of time.

## 2.4 Additional sources

- Real estate valuation,

<http://www.mgipu.hr/default.aspx?id=22160>

- Real estate valuation,

<http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-7/7-forum-Metodologije-procjene-vrijednosti-nekretnina.pdf>

- Factors affecting real estate prices,

<https://zagrebmax.hr/faktori-utjecaja-na-cijenu-nekretnine/>

- Tips for investing in real estate,

<https://www.maris.hr/hr/cesto-postavljanja-pitanja/>

## 2.5 Exercise and questions

### 1. Questions

1. The main criteria that affect the value of real estate are:

1. Features, geometric and position elements (surface, shape, location, distance)
2. Vicinity of major cities and industrial centers
3. Energy certificate and the use of renewable energy sources
4. Land development quotient

2. Real estate value assessment in the Republic of Croatia is regulated by:

1. Real Estate Transfer Tax Law
2. Act on Ownership and Other Real Rights
3. Rulebook on permanent court valuers
4. Property Valuation Act

### 2. Exercise

You have a meeting with a foreign investor who is interested in investing in a real estate located in the City of Zagreb. He is interested in the main characteristics that affect the value of the real estate and he is asking you to explain them to him. Try to give him advice on which elements he has to take into consideration when investing.

### Answer:

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

### **3. Real estate market economics**

#### **3.1. Theoretical framework**

An extensive study on the real estate market was conducted by the Institute of Economics, Zagreb and the Ministry of Construction and Physical Planning and it was published in August 2018. This study shows in detail the trends of the real estate market in the Republic of Croatia in the period from 2012 to 2017. To illustrate the real estate market economics in the Republic of Croatia, the data cited in this section have been taken from the abovementioned study.

The study defines the real estate market, in accordance with the Act on Ownership and Other Real Rights, as a set of transactions resulting in either a change in ownership of a real estate or in a change in the use of real estate rights. Since the land area of the Republic of Croatia amounts to 56.594 billion m<sup>2</sup>, it can be concluded that this land surface, with or without the buildings permanently connected to it, is the subject of potential real estate transactions in the market. Out of the total land area, 24.927 billion m<sup>2</sup> refers to forest land, while for the agricultural production is used about 15.460 billion m<sup>2</sup> of land.

#### **3.2. Important: The real estate market in the Republic of Croatia**

The census 2011 data indicate that a total of 2,246,910 residential buildings have been built on the land surface of the Republic of Croatia, out of which 1,912,901 are suitable for permanent living. The abovementioned land area together with the buildings permanently connected to it represents the total real estate offer in the Republic of Croatia. In the real estate market between 2012 and 2017, 536,811 transactions were realized (Figure 1 and Table 1). The largest number of transactions relates to agricultural land transactions, which means 220,459 transactions in the said period. Apart from the agricultural land, there were 103,193 transactions related to residential apartments/apartments for rent and the construction land with 74,378 transactions.

The dominant real estate transactions in the market are purchasing and selling, which totalled to 528,123 in the period from 2012 to 2017, which means 98.4 of all real estate transactions in the Republic of Croatia. The second most common form of transaction on this market is the lease with 5,313 transactions, rent with 2,886 transactions and the easement involving 298 transactions. According to the type of transactions, we can conclude that every year there are approximately between 80 and 100 thousands of sales and purchase transactions and that these transactions recorded a growth of 13.1 per cent from 2012 to 2017. Lease and rent also significantly increased the number of transactions, so these two contract categories in 2017 reached 1,580 and 904 transactions. However, it should be noted that this growth may come from more regular reporting of such types of contracts to the Tax Administration and that the actual number of lease and rent transactions is likely to be even higher.

Figure 1. The number of transactions by the type of real estate between 2012-2017

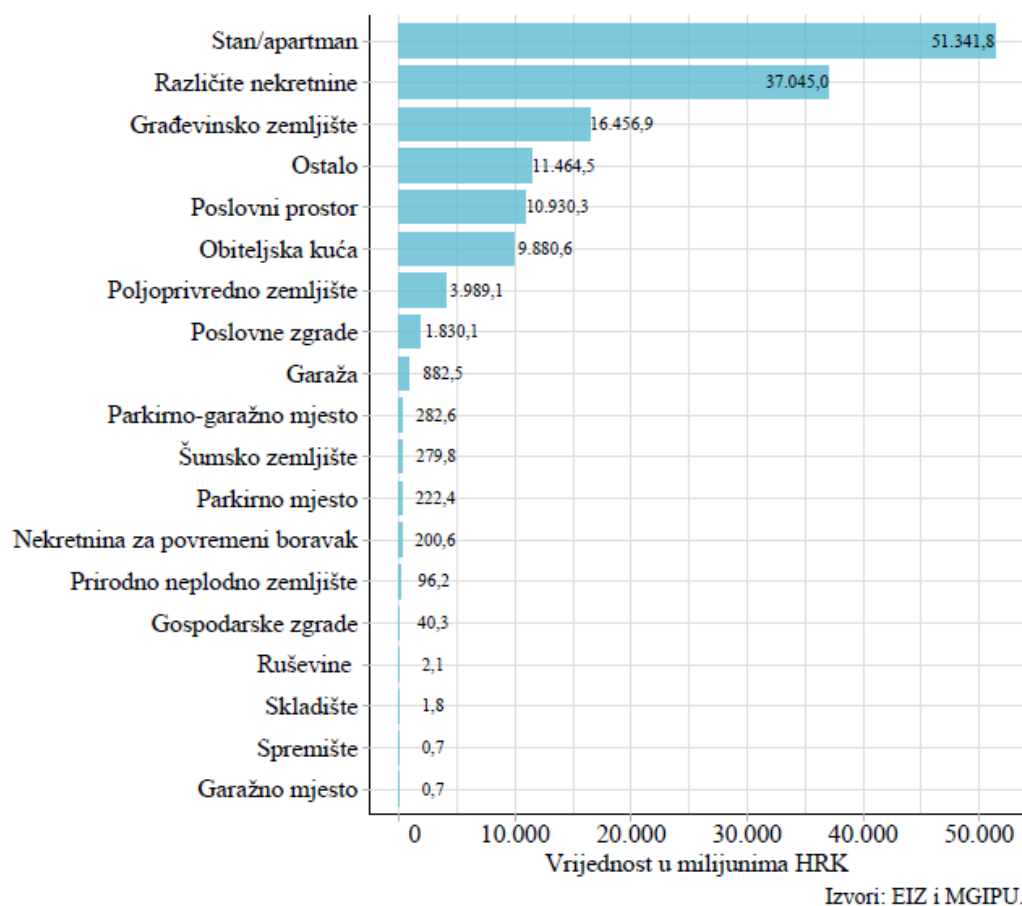


Table 1. The number of transactions by the type of real estate and years

Vrsta nekretnine/godina	2012.	2013.	2014.	2015.	2016.	2017.	Ukupno
Pojoprivredno zemljište	38.680	38.974	33.684	34.964	36.895	37.259	220.459
Stan/apartman	15.122	14.034	15.128	17.225	21.819	19.860	103.193
Gradevinsko zemljište	12.599	11.994	12.078	11.031	13.092	13.582	74.378
Različite nekretnine	10.206	10.782	11.391	9.876	12.802	14.754	69.811
Ostalo	2.877	2.871	3.284	2.397	3.208	3.258	17.895
Obiteljska kuća	3.033	2.590	2.295	2.833	3.182	2.985	16.919
Poslovni prostor	1.213	1.167	1.289	2.103	2.474	2.714	10.967
Garaža	1.374	1.211	1.496	1.221	1.340	1.122	7.764
Šumsko zemljište	9	34	75	1.838	2.100	1.909	5.965
Parkirno-garažno mjesto	4	7	144	1.036	1.461	1.413	4.065
Parkirno mjesto	788	851	808	253	343	302	3.345
Prirodno neplodno zemljište	0	1	13	309	437	192	953
Nekretnina za povremeni boravak	2	17	14	198	251	144	626
Poslovne zgrade	3	1	10	82	94	60	251
Gospodarske zgrade	1	0	2	37	48	9	97
Skladište	0	0	2	9	13	28	52
Spremište	1	2	1	8	12	8	32
Ruševine	1	1	0	7	13	0	22
Garažno mjesto	0	0	0	4	7	6	17
<b>Ukupno</b>	<b>85.913</b>	<b>84.537</b>	<b>81.714</b>	<b>85.431</b>	<b>99.591</b>	<b>99.605</b>	<b>536.811</b>

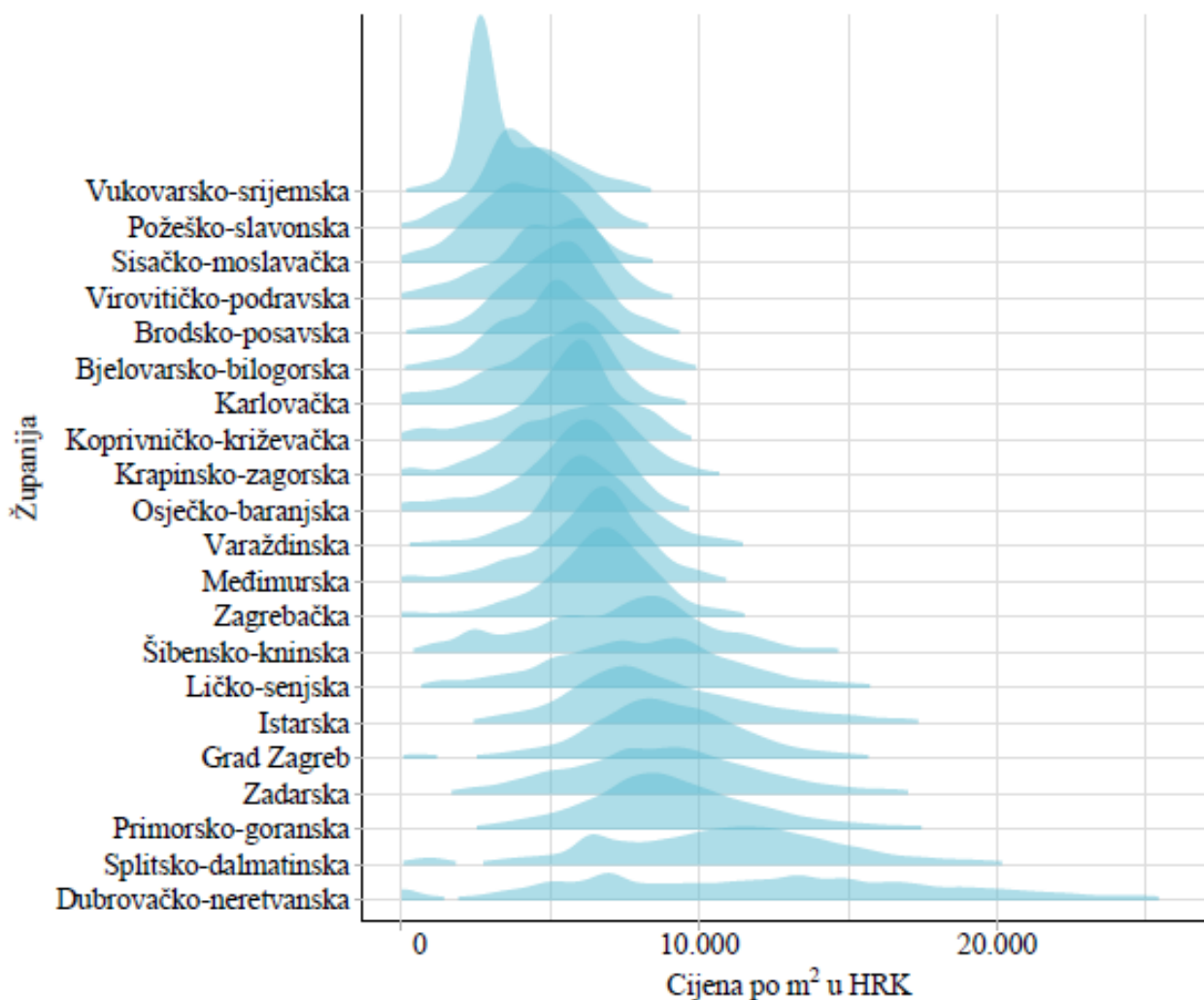
Izvori: EIZ i MGIPU.

Table 2. The number of transactions by the contract type and years

Vrsta ugovora/godina	2012.	2013.	2014.	2015.	2016.	2017.	Ukupno
Kupoprodaja	85.857	84.499	81.490	83.017	96.180	97.068	528.123
Zakup	17	18	130	1.259	2.302	1.580	5.313
Najam	0	1	67	892	1.022	904	2.886
Služnost	4	2	8	214	65	5	298
Pravo građenja	35	17	16	23	22	50	163
Ugovor o zamjeni	0	0	2	23	6	0	31
Nagodba	0	0	1	5	1	0	7
Zakup uz pravo služnosti	0	0	0	4	1	0	6
Ugovor o ulaganju stvari u društvo	0	0	0	1	1	0	2
Zakup uz pravo građenja	0	0	0	1	0	0	1
<b>Ukupno</b>	<b>85.913</b>	<b>84.537</b>	<b>81.714</b>	<b>85.439</b>	<b>99.600</b>	<b>99.607</b>	<b>536.830</b>

Izvori: EIZ i MGIPU.

Figure 2. The distribution of residential apartments/apartments for rent prices in HRK per m2 from 2012-2017 by counties



Izvori: EIZ i MGIPU.

In the 5th percentile, residential apartments/apartments for rent were the cheapest in Karlovac County where the price of such apartments was 1.131 kunas per m<sup>2</sup>. In the 5th percentile, apartments were the most expensive in Primorje-Gorski Kotar and Istarska County where the price per square meter was over 4.000 kunas. On the other end - in the 95th percentile, the cheapest apartments were in Vukovar-Srijem County, where m<sup>2</sup> cost HRK 6,639, and the most expensive were in Dubrovnik-Neretva at a price of HRK 28.051 per m<sup>2</sup>. The difference in price per m<sup>2</sup> between the 5% of the cheapest and 5% of the most expensive apartments was the largest in Dubrovnik-Neretva and the smallest in Vukovar-Srijem County.

### 3.2.1. Construction land

In the period from 2012 to 2017, a total of 74,077 sale and purchase transactions of construction land were realized. Figure 3 shows that the largest number of transactions was realized in 2017 - 13,505 transactions - which is 18.2 per cent of all transactions in the observed six-year period. In 2017, the number of transactions grew by 7.5 per cent compared to 2012, and the growth of 3.7 per cent compared to the previous year was recorded. The number of transactions fell only in 2013 and 2015 and reached its lowest level in 2015 when it amounted to 10,945 transactions which is a decrease of -12.9 per cent compared to the initial

period of 2012. In 2017, the highest total value of transactions was achieved and it amounted to HRK 3.2 billion. As compared to the initial year of 2012, it is an increase of 25.4 per cent.

Figure 3. The number of sale and purchase transactions of construction land between 2012 - 2017

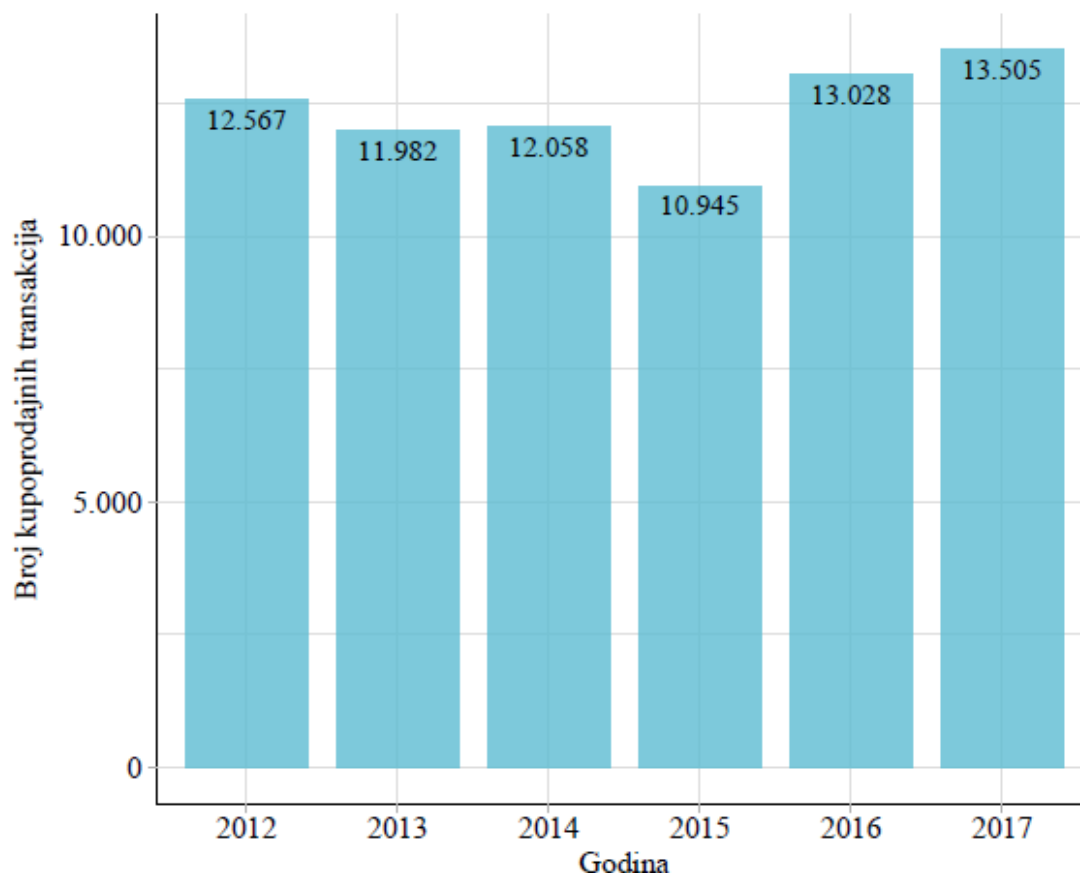


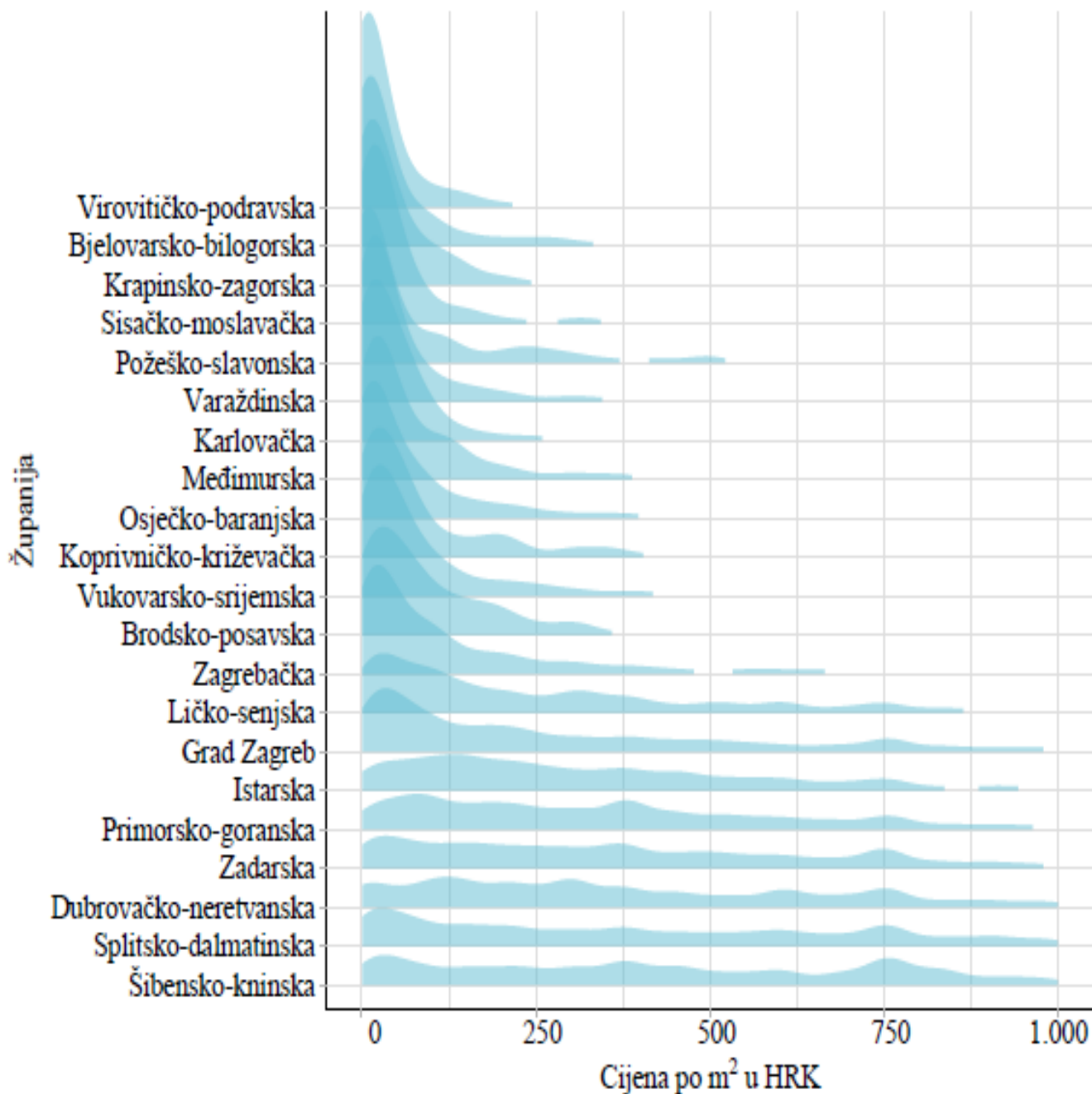
Table 3. The number of sold construction land by counties and years

Županija/godina	2012.	2013.	2014.	2015.	2016.	2017.	Ukupno
Primorsko-goranska	2.017	2.183	2.128	2.065	2.443	2.378	13.215
Splitsko-dalmatinska	1.382	1.433	1.583	1.359	1.873	2.191	9.821
Istarska	1.284	1.249	1.385	1.216	1.581	2.262	8.977
Zadarska	1.373	1.337	1.473	1.179	1.566	1.654	8.582
Zagrebačka	943	911	929	690	714	762	4.949
Grad Zagreb	952	729	748	623	744	534	4.330
Šibensko-kninska	678	704	729	681	786	702	4.280
Dubrovačko-neretvanska	502	468	530	414	447	512	2.873
Karlovačka	617	440	320	439	395	366	2.577
Krapinsko-zagorska	417	415	429	375	387	391	2.414
Varaždinska	427	446	218	221	325	291	1.928
Osječko-baranjska	379	369	263	230	327	150	1.718
Sisačko-moslavačka	308	225	156	427	284	195	1.595
Ličko-senjska	224	177	348	179	255	263	1.446
Međimurska	250	187	178	189	288	175	1.268
Vukovarsko-srijemska	209	145	106	91	104	189	844
Brodsko-posavska	163	199	100	107	115	152	836
Koprivničko-križevačka	108	95	77	180	161	130	751
Bjelovarsko-bilogorska	181	88	213	108	76	78	744
Virovitičko-podravska	71	138	103	94	122	93	621
Požeško-slavonska	81	44	39	74	33	37	308
Ukupno	12.566	11.982	12.055	10.941	13.026	13.505	74.077

Izvori: EIZ i MGIPU.

Table 4. The distribution of construction land prices per m<sup>2</sup> in HRK between 2012-2017 by counties





Izvori: EIZ i MGIPU.

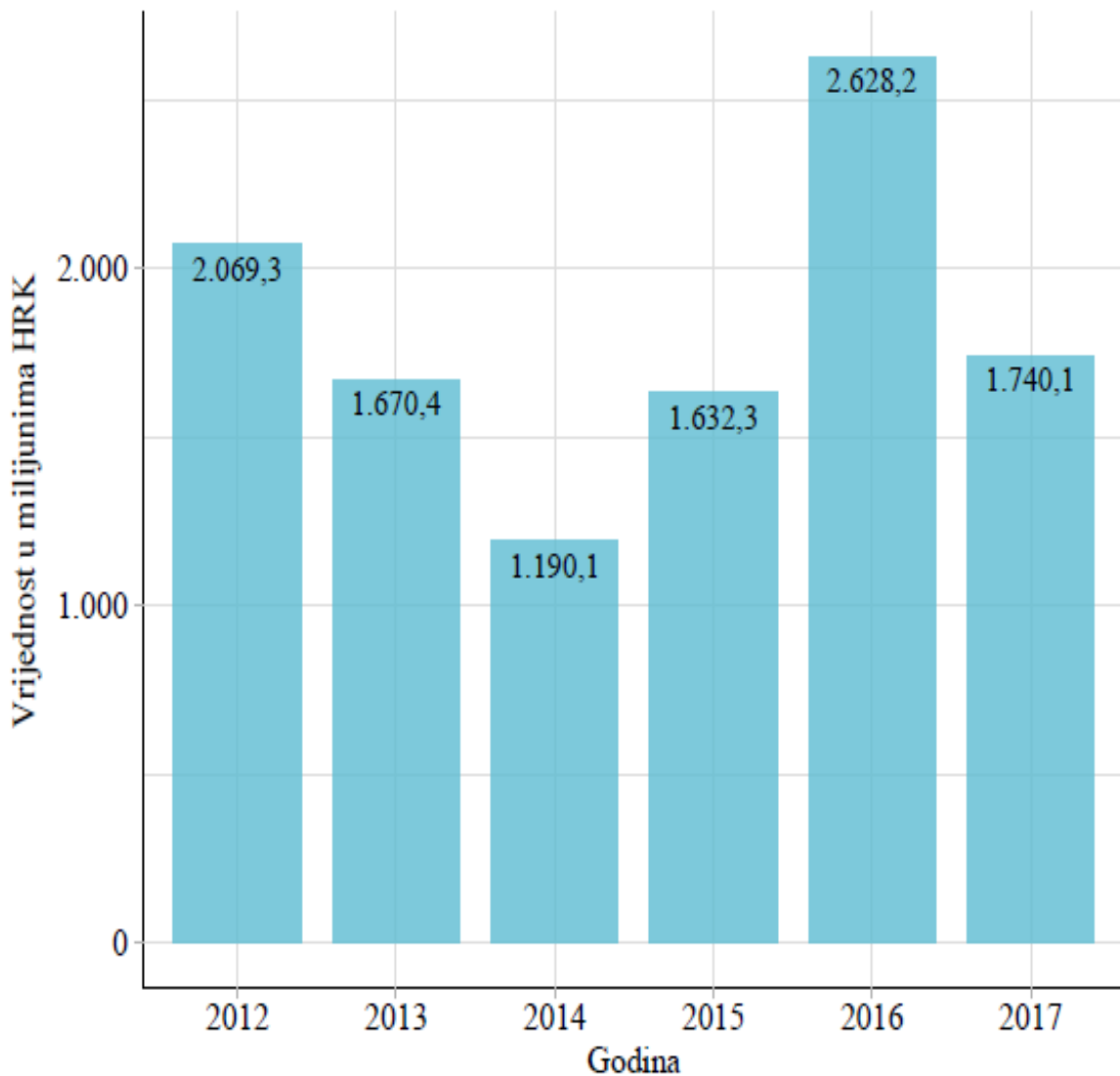
### 3.2.2. Commercial real estate transactions

In the period from 2012 to 2017, a total of 7.877 sale and purchase transactions of commercial real estate were made. Figure 5.1 shows that the largest number of transactions realized in 2016 was 1,548 transactions, which means 19.7 per cent of all transactions in the observed six-year period. Compared to the initial period, 2012, in 2016, 25.5 per cent more transactions were realized, while in 2017 this figure was slightly lower, 18.0 per cent, as there was a somewhat smaller number of transactions in comparison to 2016 - 1,410 transactions.

The total value of transactions in 2012 was HRK 2.1 billion, and for the next three years, the total value was below HRK 2 billion. In 2016 the value increased significantly to HRK 2.6

billion, which represents an increase of 27.0 per cent compared to 2012. In 2017, the total value of transactions fell again below 2 billion, to HRK 1.7 billion, which represents a decrease of -15.9 per cent compared to 2012. Given that the reduction in total value in 2017 is greater than the decrease in the number of transactions compared to 2016, we can conclude that in 2017, the real estate price affected the decrease more than the number of transactions.

Table 5. The value of sold commercial real estate in million HRK between 2012 - 2017



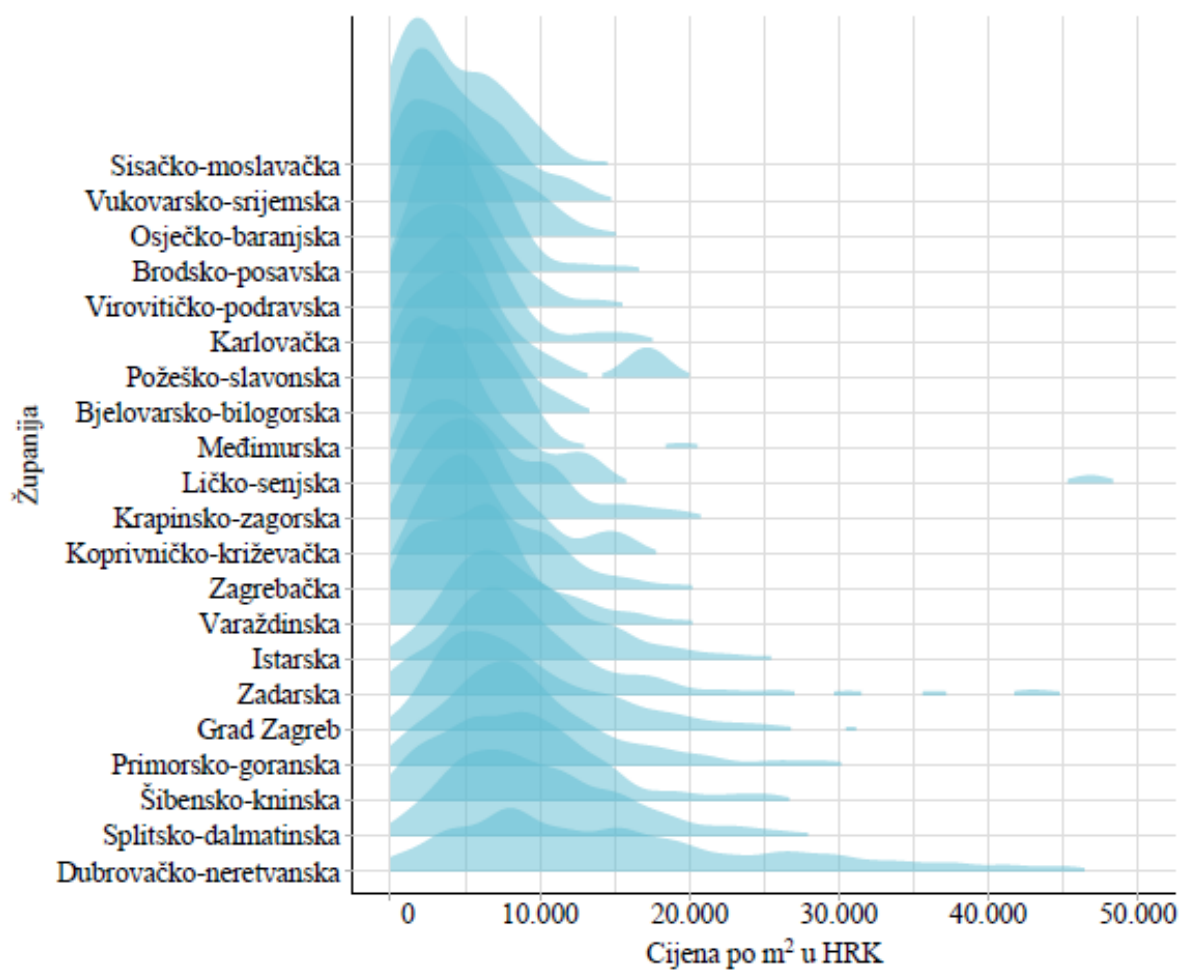
Izvori: EIZ i MGIPU.

Table 6. The number of sold commercial real estate by counties and years

Županija/godina	2012.	2013.	2014.	2015.	2016.	2017.	Ukupno
Grad Zagreb	331	311	304	376	498	417	2.237
Splitsko-dalmatinska	157	144	204	197	254	276	1.232
Primorsko-goranska	104	84	93	124	123	97	625
Istarska	110	103	91	79	91	112	586
Osječko-baranjska	61	72	94	71	100	79	477
Dubrovačko-neretvanska	82	75	69	53	52	57	388
Zagrebačka	34	50	51	72	63	60	330
Zadarska	53	44	37	73	55	41	303
Varaždinska	23	22	35	33	48	30	191
Krapinsko-zagorska	35	24	23	36	32	21	171
Karlovačka	32	21	24	27	30	35	169
Brodsko-posavska	18	25	24	43	22	28	160
Virovitičko-podravska	26	27	14	33	23	24	147
Međimurska	24	20	25	23	30	23	145
Bjelovarsko-bilogorska	19	25	30	25	24	21	144
Vukovarsko-srijemska	23	25	17	29	26	17	137
Šibensko-kninska	15	23	19	22	28	24	131
Sisačko-moslavačka	17	29	18	18	16	20	118
Koprivničko-križevačka	15	11	12	26	13	17	94
Ličko-senjska	8	7	6	10	7	9	47
Požeško-slavonska	8	8	6	10	11	2	45
Ukupno	1.195	1.150	1.196	1.380	1.546	1.410	7.877

Izvori: EIZ i MGIPU.

Table 7. The distribution of commercial real estate prices per m2 in HRK between 2012-2017 by counties



Izvori: EIZ i MGIPU.

Table 7 shows the distribution of commercial real estate prices per m2 by counties. The Sisak-Moslavina County, which has the lowest median price per m2 of a commercial real estate, also has the most concentrated distribution, meaning that the range of realized prices is narrow. On the other end, there are Dubrovnik-Neretva and Split-Dalmatia Counties with extremely dispersed distribution, ranging from 0 to almost 50,000 kunas per m2. The City of Zagreb and the six Adriatic counties have the middle of the distribution shifted more right as well as longer right ends compared to the remaining 14 counties.

### 3.2.3. The taxation of real estate transactions

According to the new Real Estate Transfer Tax Law, which has been in effect since January 1, 2017, the tax on real estate transactions is 4%. It has been announced that the rate in 2019 will be 3%. When buying or selling a real estate, tax obligations are reported by public notaries, as well as by courts and other public bodies, whereby the property tax is deemed to have been registered when the acquisition documents are notarized by a notary public or are issued by a court or by another public body which submits them to the Tax Administration. However, exceptionally, the tax report remains the obligation of the acquirer of the real estate if the

document on the acquisition of the real estate is not notarized by a notary public or is not issued by a court or by another public body. Also, this obligation exists for the real estate suppliers which are subject to the value-added tax as well as for the transfer of the tax liability.

### 3.3. Experts' tips

The implemented tax reform, in effect in 2018, has been designed to promote economic progress and companies are allowed the tax exemption when the owner or a member of the company brings the real estate into the company, irrespective of whether the property will be registered in the share capital or in the capital reserves of the company.

### 3.4. Additional sources

- Overview of the real estate market in the Republic of Croatia, <https://www.eizg.hr/publikacije/serijske-publikacije/pregled-trzista-nekretnina-republike-hrvatske/4273>
- The study of the real estate market in Croatia, [http://www.uredjenazemlja.hr/UserDocsImages/dokumenti/zavrsne\\_analize\\_i\\_studije/Studija\\_trzista\\_nekretnina\\_Final\\_sa\\_slikama\\_i\\_predgovorom\\_i\\_.pdf](http://www.uredjenazemlja.hr/UserDocsImages/dokumenti/zavrsne_analize_i_studije/Studija_trzista_nekretnina_Final_sa_slikama_i_predgovorom_i_.pdf)
- Warnings when investing in real estate, <http://www.agenti.hr/info-klijent/vazna-upozorenja/>
- Real estate valuation methodology, <http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-7/7-forum-Metodologije-procjene-vrijednosti-nekretnina.pdf>
- Rules for real estate valuation, <https://www.jutarnji.hr/arhiva/sedam-pravila-za-procjenu-nekretnine/3262706/>

### 3.5. Exercise and questions

#### 1. Questions

1. In the market of the Republic of Croatia, the most expensive commercial real estate per m<sup>2</sup> (according to the study conducted from 2012 to 2017) is in:

1. The City of Zagreb
2. Primorje-Gorski Kotar County
3. Split-Dalmatia County
4. Dubrovnik-Neretva County

2. In the market of the Republic of Croatia, the most expensive construction land per m<sup>2</sup> (according to the study conducted from 2012 - 2017) is in:

1. Šibenik-Knin County
2. The City of Zagreb
3. Primorje-Gorski Kotar County
4. Split-Dalmatia County

#### 2. Exercise

The investor buys a construction land in the amount of HRK 1,000,000. Calculate how much of real estate transaction tax he will pay if he bought the real estate in 2018.

Answer:

Choose the answer:

- a) correct
- b) partly correct /incomplete
- c) incorrect

## **4. Real estate contracts**

### **4.1. Theoretical framework**

A real estate ownership is not acquired automatically, but by entering into the land registry and based on a sale and purchase contract and on a permit for land registration.

A real estate ownership can be acquired:

1. by legal transactions
2. by a court decision or by another competent authority
3. by inheritance
4. by law

### **4.2. Important: The acquisition of real estate ownership rights based on a sale and purchase contract**

A real estate ownership is not acquired automatically but by entering into the land registry and based on a sale and purchase contract and on a permit for land registration. The permit for land registration may be an integral part of the contract, a special document or may be contained in the proposal for registration. In such cases, the document or proposal for registration containing the permit must contain all the information required for the registration. The proposal for registration of the ownership right is submitted to the land registry department of the competent municipal court according to the place where the real estate is located. It is also possible to submit an electronic proposal for registration in the land registry, regardless of where the property is located, through all public notaries in the Republic of Croatia and through attorneys who have requested such an opportunity.

#### **4.2.1. Documentation required for registration of ownership rights**

To register the ownership rights, it is necessary to submit:

- a proposal for registration in two copies
- sale and purchase contract (original or certified copy)
- a certified permit for land registration of the seller (if it is not an integral part of the contract or the permit is not contained in the proposal for registration)
- proof of citizenship of the buyer (a certificate of nationality, identity card, passport)
- a court fee of 250 kunas or evidence of exemption from a court fee payment.

If the proposal for registration of ownership rights is not submitted within 60 days from the date of meeting the conditions for registration of these rights into the land registry or in the book of the deposited contracts, a fivefold fee shall be charged. Once all the necessary documents have been submitted and the registration number has been received, the status of the case can be checked on the websites of the Ministry of Justice. The deadline by which the land registry department of the competent municipal court is obliged to register the ownership rights in the land registry is not prescribed by the Land Registration Act. Items are usually dealt with according to the order they were received at the land registry department.

#### **4.2.2. Energy certificate**

An energy certificate is a document that states the energy properties of the building and it is made by authorized energy certification persons - energy certifiers. The document is valid for ten years from the date of its issuance. The energy certificate of the building is issued for the building or its special part, for which energy is required to maintain the internal temperature according to its purpose, except for:

- a building used to hold religious ceremonies or religious activities
- temporary building with a term of use of two years or less, an industrial plant, a workshop and a non-residential agricultural building with small energy needs
- a residential building that is used for less than four months a year
- a free-standing building with a total usable area of less than 50 m<sup>2</sup>.

The investor or the owner of the building for which the energy certificate is issued is obliged to obtain an energy certificate before issuing the use permit unless otherwise provided by the law.

The owner of the building for which the energy certificate is issued, or for its special part, is obliged to:

- before selling, renting or leasing of the building or its special part, obtain an energy certificate
- submit the energy certificate or its copy to the buyer or a lessee
- submit the energy certificate to a possible buyer or a lessee
- in an advertisement for sale, lease or a rent of a building or its special part and which is published in the media, indicate the energy class of the building.

#### **4.3. Experts' advice**

When purchasing a real estate, it is usual to sign a pre-contract, in which the real estate is defined by indicating land registry data regarding the real estate (cadastral municipality, particle number and land registry file number in which the property is registered) and the description of the real estate (apartment address, floor, apartment number, description of rooms it consists of and the total surface), the price, the date of the conclusion of the final contract and the down payment for the real estate. The down payment is agreed upon as a cancellation fee - if the buyer gives up, the seller keeps the down payment, and if the seller gives up, he has to pay the buyer the double amount of the down payment. The usual amount is ten per cent of the value of the property. The sale and purchase pre-contract must be notarized by a notary public.

#### **4.4. Additional sources**

- **Acquisition of ownership rights**, <https://pravosudje.gov.hr/stjecanje-prava-vlasnistva/6183>



## 4.5. Exercise and questions

### 1. Questions

1. In which of these ways the ownership CANNOT be acquired:

1. by legal transactions
2. by a court decision or by a decision of another competent authority
3. by entering into possession
4. by law

2. Ownership is acquired:

1. by signing a sale and purchase contract
2. by notarization of a sale and purchase contract by a notary public
3. by registering in the land registry
4. by entering into possession

### 2. Exercise

The investor wants to buy a real estate and wants to register his ownership regarding it. Explain to him the basic steps for the registration of the ownership in the land registry.

Answer:

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## 5. Real estate sale and purchase contract

## **5.1. Theoretical framework**

The real estate sale and purchase contract is a contract whereby the seller commits himself to transfer the ownership of the property to the buyer and the buyer undertakes to pay the contracted real estate price. The buyer is obligated to pay to the seller the entire amount of the contracted purchase price, and the seller is obliged to hand over to the buyer the property in question and to allow the transfer of the ownership rights in the buyer's name. Such a contract, in order to be valid, must be in writing and must contain all the correct information about the property. The signature on the sale and purchase contract is verified only by the seller. It is important to know that the buyer does not acquire the right of ownership by paying the purchase price but by registering that right in the land registry.

All persons involved in the sale and purchase of the real estate should be listed with relevant information such as name, surname, address and a personal identification number called OIB (passport, identity card).

## **5.2. Important: The characteristics of the real estate sale and purchase contract**

A real estate sale and purchase contract must be in writing. The real estate sale and purchase contract, in addition to all that has been stated in the pre-contract, usually includes the date of the transfer of the real estate into the buyer's possession as well as the seller's guarantee that there are no third party rights on the real estate. It is advisable to entrust a lawyer with the writing of a (pre-)contract to ensure that the buyer is well-protected.

Several copies of the sale and purchase contract are notarized by a notary public. One copy of the contract:

- is kept by the seller
- is kept by the buyer
- is kept by the notary public
- is submitted to the land registry department of the competent municipal court with the proposal for real estate registration
- is submitted to the bank if the property is purchased on credit.

If the real estate is purchased on bank credit, the contract will be previously solemnized by a notary public, and the bank will enter a mortgage on the real estate. When buying a real estate, the seller is required to submit an energy certificate or a copy of it.

### **5.2.1. Down payment**

A down payment is a sign of the seriousness of the business and the real intention of buying a property and it is usually in the amount of 10% of the value of the purchase price. Down payment is regulated by the Civil Obligations Act - if one party hands over to the other party a certain amount of money or a certain amount of other replaceable items as a sign that the contract is concluded (down payment), the contract is considered to be concluded when the down payment has been given, unless otherwise agreed.

The receipt of the down payment is not the end of the legal transaction without the payment of the agreed price. In the case of the full payment of the agreed price, the received down

payment has to be repaid or included in the fulfilment of the obligation. The full payment of the contract price is a precondition for the issuance of the permit for land registration, that is, a statement by which the seller declares that he has received from the buyer the total amount of the contracted purchase price, thereby allowing the buyer the registration of the ownership rights regarding the real estate that is the subject of the sale and purchase contract.

### **5.2.2. The permit for land registration**

The permit for land registration is a statement of the real estate owner by which the seller of the real estate, after the receipt of the entire purchase price, permits the buyer the registration of the real estate ownership without any future objections and limitations. The seller by means of the permit for land registration authorizes the buyer to obtain, without any further questions and approvals, the registration of the ownership rights in his favour and in his name. The sale of the real estate, besides the transfer of the ownership, also includes the seller's duty to issue the permit for land registration to the buyer if the buyer has fulfilled obligations, i.e. has paid the agreed price. If the seller does not want to issue the permit for land registration and the buyer has fulfilled all his obligations, in that case, the buyer is entitled to request the termination of the contract. In this case, the buyer may by filing a lawsuit, request the issuance of the permit for land registration (a document that enables the transfer of the ownership rights into the land registry) from the seller if he does not want to fulfil his obligation voluntarily.

Figure 4. The standardized real estate sale and purchase contract that can be bought at Narodne novine (Official Gazette).

Ime, prezime, ime oca i matice roditelja (i) - obavezanik

kao prodavatelj(i) (u daljnjem tekstu ugovora: **prodavatelj**), i

Ime, prezime, ime oca i matice roditelja (i) - obavezanik

kao kupac(i) (u daljnjem tekstu ugovora: **kupac**) sklapaju ova]

U G O V O R
O KUPOPRODAJI NEKRETNINA

**I.**

Prodavatelj prodaje, a kupac kupuje nekretnine:

Obim građevine: stambeni, poslovni prostor, zemljište i drugi nekretnosti

Površina u četvornim metrima \_\_\_\_\_ Mjesto gdje se nekretnina nalazi (za građevine adresa  
 i kada je izgrađena) \_\_\_\_\_

Za zemljište: katastarska općina \_\_\_\_\_, broj zemljišnoknjižnog uložka  
 \_\_\_\_\_, i broj katastarske čestice \_\_\_\_\_

**II.**

Kupoprodajna cijena ugovorena je u iznosu od \_\_\_\_\_ kuna,  
 slovima: \_\_\_\_\_ kuna,

Kupac(i) je (su) isplatio(i) prodavatelj(u)ima iznos od \_\_\_\_\_ kuna,  
 slovima: \_\_\_\_\_ kuna,

što prodavatelj(i) potvrđuje(u) potpisom ovog ugovora.

Ostatak kupoprodajne cijene u iznosu od \_\_\_\_\_ kuna,  
 slovima: \_\_\_\_\_ kuna,

kupac(i) se obvezuje(u) uplatiti prodavatelj(u)ima do: \_\_\_\_\_

Narodne novine d.d., Zagreb – (113) 811883  
 Oznaka za nekretnost: UT-4-419

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Publikovano elektronički  
 Oznaka za izdavača: P-2204-01

### **5.2.3. Notarization of documents**

A notary public is a qualified lawyer appointed by the Croatian Government. It is his duty to ensure that all documents signed with a notary public are valid, legitimate and legally binding. He confirms that documents in a foreign language have been translated into Croatian by an authorized court interpreter and that they are valid and authentic. He can also offer third-party services in the transaction. In real estate transactions in Croatia, contracts are legally binding only if they have been notarized by a notary public.

As noted above, the signature on the sale and purchase contract is only notarized by the seller in the Republic of Croatia and by a notary public, while in foreign countries it is notarized in Croatian diplomatic offices. If such a contract is notarized by a foreign notary public, then the authorized court interpreter must translate it into the Croatian language.

#### **5.2.4. The purchase of a real estate when the real estate owner is a public administration body**

In the case where the seller of a real estate is the Republic of Croatia, specific rules are applied to the contractual relationship regarding the manner of disposing of the real estate:

- the Republic of Croatia is the owner of less than 50% of the real estate - the Republic of Croatia disposes of the real estate without a public tender, according to the market value, and according to the location permit or an implementing act of spatial planning)
- the Republic of Croatia is the owner of more than 50% of the real estate - the obligation to conduct a public tender
- a local self-government unit (JLS) is the owner of less than 20% of the real estate – the local self-government unit disposes of the real estate without a public tender, according to the market value, and according to the location permit or an implementing act of spatial planning
- a local self-government unit is the owner of more than 20% of the real estate - the obligation to conduct a public tender.

The State Property Ministry disposes of the real estate whose owner is the Republic of Croatia.

### **5.3. Experts' tips**

Prior to the realization of a real estate sale and purchase, it is necessary for all the participants in the sale and purchase process to present a personal identification document in order to know who is taking part in the negotiations and whether they are authentic real estate owners.

If one of the sellers has an authorization for representation in the real estate sale or its co-owned part, it is necessary to carefully read the content of the authorization and compare it with the data from the land registers, personal identification documents and the OIB tax number.

If one of the sellers has an authorization for representation in the sale of the real estate, or its co-owned part, and the real estate is purchased on bank credit, before the sale has been concluded with the seller, the authorization must be submitted to the bank and it has to be checked whether the bank will accept it.

Immediately prior to the conclusion of the final sale and purchase contract or paying out the purchase price, it is necessary to visit the land registry and cadastre and check the current status of the real estate registration. There is a possibility that someone has in the meantime filed an application for registration, annotation or for any other type of registration of the right to the property in question. It is recommended to check whether an inheritance or enforcement proceedings related to the real estate are in progress. These procedures are often not recorded or are recorded with delays. Related to these procedures, it is necessary to look for registered seals on the real estate.

The location, construction and use permits must be certified by a stamp of validity and finality. It is necessary to pay attention to whether on the building for which a use permit or a certificate of the main project has been issued, have subsequently been carried out construction works in terms of reconstruction, upgrading or a new building has been constructed on the cadastral plot! In such cases, a previously issued use permit or certificate of the main project is no longer valid and the actual state must be aligned with that found in the space. Check with the competent state inspectorate that there is no inspection procedure for a particular building.

When purchasing an apartment, house or any other property, it is important to check the documentation - a land registry extract, a building permit or other appropriate building permit, a use permit and an energy certificate. When buying a real estate, first, it is necessary to check the ownership registered in the land registry with the municipal court in the area where the real estate is located. Also, it is necessary to request from the owner of the real estate all the documents regarding the building and the land he possesses, as well as the energy certificate.

If you are purchasing a property that has not been fully redeemed from the previous owner (usually: state, city, institution, company, ...), ask the seller for an appropriate confirmation of the remaining unpaid amount of debts (preferably with the instructions for the payment of the remaining part until the final settlement). Ask the seller if there is a possibility to take over the unpaid part of the purchase.

If one of the sellers is a minor, it is necessary to obtain a written consent for the disposal of a real-estate or a co-owned part from the competent social welfare center with the exact amount of the purchase price and the payment instruction. Do not start any purchase without contacting the competent social welfare center!

The size of cadastral parcels in land and cadastre registers must be the same, i.e. in the land register extract and the possession title the equal square footage in m<sup>2</sup> must be stated. Identify and compare the boundaries on the parcel (actual situation on the ground compared to what is entered in the cadastre). You can do this independently at your own risk or hire an authorized geodesist.

When handing over the down payment, we recommend compiling a document in writing with a witness signature or a notarization by a notary public. Sellers are advised to stipulate the down payment as a cancellation fee.

Although the legislator did not prescribe a minimum or maximum amount of a down payment, in practice, the down payment is considered to amount up to 10% of the contracted purchase price. The overpaid amount is considered part of the purchase price and is not

calculated as a cancellation fee. Advance payments are not down payments, and such terms are not subject to the same provisions of the Civil Obligations Act.

If you are buying an apartment which is still in the process of construction, the investor must provide you with a valid building permit or other appropriate construction permit. Apart from the building permit, the use permit is equally important but it cannot be obtained if the construction conditions prescribed by the building permit or other appropriate construction permit have not been fulfilled. It is also advisable to request an insight into the main project, which is part of the building permit. It should be noted that the investor, i.e. the owner of the building, has to obtain an energy certificate before issuing the use permit.

#### **5.4. Additional sources**

- Real estate purchase,

<https://gov.hr/moja-uprava/stanovanje/kupnja-prodaja-i-najam-nekretnine/kupnja-nekretnine/155>

## 5.5. Exercise and questions

### 1. Questions

1. What is a permit for land registration?

2. What can the buyer do if the buyer has fulfilled all his obligations regarding the sale and purchase contract and the seller does not want to issue the permit for land registration?

### 2. Exercise

The investor has bought a real estate in which the Republic of Croatia has a 40% ownership share. What would you advise the investor in order to become a 100% owner of real estate?

Answer

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## 6. Acquisition of real estate by foreign citizens

### 6.1. Theoretical framework

Foreigners can purchase a real estate in the Republic of Croatia, i.e. acquire real estate ownership if they are citizens and legal entities of the states with whom there is reciprocity in obtaining the right of ownership of real estates in the Republic of Croatia and with the prior consent of the Ministry of Justice of the Republic of Croatia.

### 6.2. Important: The acquisition of a real estate by legal and natural persons from the European Union

Citizens and legal persons from EU Member States can acquire the right to property ownership under the assumptions applicable to the acquisition of the right of ownership for citizens of the Republic of Croatia and legal persons with headquarters in the Republic of Croatia, with the exception of the real estate in excluded areas such as agricultural land regulated by a special law. The Agricultural Land Act stipulates that holders of property ownership rights on agricultural land cannot be foreign natural or legal persons unless otherwise provided by an international agreement and a special regulation. Given that no special regulation or international agreement stipulates otherwise, for now, foreign legal and



natural persons cannot acquire the right of ownership of agricultural land in the Republic of Croatia through legal transactions.

Pursuant to the provisions of the Treaty on the Accession of the Republic of Croatia to the European Union, citizens of the European Union cannot acquire agricultural land from the date of accession of the Republic of Croatia to the European Union for the next 7 years with the possibility of a ban for another 3 years. The granting of approval for the acquisition of ownership rights by foreign persons (excluding citizens and legal persons from the EU Member States) regarding real estate in the Republic of Croatia shall be decided upon in the administrative procedure at the request of the party (acquirer).

The procedure is conducted in accordance with the provisions of the Act on Ownership and Other Real Rights as well as the General Administrative Procedure Act. The application ( in writing) is submitted directly to the registrar's office or sent by post to:

- Ministry of Justice of the Republic of Croatia
- Directorate for Civil, Commercial and Administrative Law
- Ulica grada Vukovara 49, 10000 Zagreb

The written application must be accompanied by:

- the legal basis for acquiring ownership (sale and purchase contract, a deed of gift, contract of support until death, etc.), the original or a certified copy,
- the proof of ownership of the seller of the real estate concerned, i.e. the extract from the land registry, the original or a certified copy, not older than six months,
- the certificate of the administrative body responsible for urban planning, according to the place where the real estate is located, on the legal status of the real estate (whether the real estate is within the boundaries of the construction area as envisaged in the urban plan),
- a proof of citizenship of the acquirer (a certified copy of the passport and the like) or a proof of the legal status of the legal person (extract from the court register), if the acquirer is a foreign legal person,
- in the case where the applicant is being represented by a proxy, the authorization must be submitted in its original form or a certified copy,
- if the applicant did not designate a proxy who will represent him, and he is abroad, he is obliged to designate a proxy authorized to receive documents and who has a residence permit in the Republic of Croatia,
- a proof of payment of administrative fee in the amount of HRK 35.00 according to Tariff number 88, item 1 of the Regulation on the Administrative Fees Tariffs.

The administrative fee must also be paid for a decision regarding the request for consent to acquire property rights in the territory of the Republic of Croatia in the amount of HRK 70.00 and for any possible addition to the request (in case of missing documents) in the amount of 15, 00 kunas (information was downloaded in August 2018). The party will be invited to submit, within the due deadline, other documents, if they are necessary for the proceedings.

Administrative fees up to HRK 100.00 can be paid in the form of stamp duties, and regardless of the amount, fees may be paid through the e-fees system and on the prescribed account, or through a universal payment order on the account of the state budget of the Republic of Croatia.

- IBAN HR1210010051863000160
- by entering the number 64 (model) in the first field of the universal order

- by entering in the second field of universal order the number 5002

In case of payment by a Croatian citizen with the number 5002, the OIB should also be entered, and in case when the amount is paid by the foreigner, then the number 721 and OIB must be entered after the number 5002. The applicant or his proxy, along with other documents, must also submit the proof of the administrative fee payment.

### 6.2.1. The acquisition of real estate by legal and natural persons from other countries

The information on reciprocity regarding acquiring real estate ownership rights between the Republic of Croatia and other countries is listed in the following table:

State	Reciprocity
Argentina	There is a reciprocity.
Australia	A reciprocity exists with the condition of permanent residence in the Republic of Croatia. In the case of investment, then a special permit for foreign investment is required.
The Republic of Azerbaijan	There is no reciprocity. Foreign natural and legal persons can use real estate in Azerbaijan only on the basis of the lease.
Belarus	A reciprocity exists regarding the acquisition of residential buildings, apartments and other residential places, while land can be acquired only through inheritance.
Bosnia and Herzegovina The Federation of Bosnia and Herzegovina	There is a reciprocity (without limitations).
Bosnia and Herzegovina Republika Srpska	There is a reciprocity (without limitations).
Bosnia and Herzegovina Brcko District	A reciprocity regarding natural persons exists provided that they permanently reside in the Republic of Croatia or perform a permitted activity; for legal persons provided they do business in the Republic of Croatia.
The Federative Republic of Brazil	There is a reciprocity.
British Virgin Islands	Pending (waiting for a response from the competent authority).
Brunei Darussalam	There is a reciprocity.
Cyprus	Pending (waiting for a response from the competent authority).
Montenegro	There is a reciprocity.
The Republic of Chile	There is a reciprocity (the restriction exists regarding the real estates that are considered to be a commonweal and are owned by the state).
The Commonwealth of Dominica	There is no reciprocity.

The Arab Republic of Egypt	A reciprocity exists under the condition: 1. The number of real estates must not exceed two in the whole of the Republic. 2. The area of unconstructed land must not exceed 4000 m2. 3. The purpose of the property must be the housing of a foreigner and his family or the activity for which he has obtained the approval of the competent authorities.
The Republic of Ecuador	There is a reciprocity.
The Republic of the Philippines	Pending (waiting for a clarification of the competent authority).
The Republic of India	There is no reciprocity.
The Republic of Indonesia	Pending (waiting for an additional clarification of the competent authority).
The Republic of Iraq	There is no reciprocity.
The Islamic Republic of Iran	There is no reciprocity.
The Republic of Iceland	Pending (waiting for a response from the competent authority).
Israel	There is a reciprocity - no restrictions regarding private property - state property is limited by prior obtaining of the appropriate permission of the competent Israeli authority.
Japan	There is a reciprocity.
The Hashemite Kingdom of Jordan	There is a reciprocity (residential real estate or premises where a personal activity is carried out), apart from land and other real estate in non-urban zones.
South African Republic	There is a reciprocity.
Canada	There is a reciprocity, depending on the province - so far, a reciprocity exists in relation to: Ontario, British Columbia, Alberta, Quebec, Manitoba, Yukon, Prince Edward Island.
The State of Qatar	There is a reciprocity in terms of natural persons regarding residential real estate, and for legal persons, it is a condition that they must have a partner from the Republic of Croatia with a 51% share in each business activity.
The Republic of Kazakhstan	There is a reciprocity.
People's Republic of China	Affiliates and offices established by legal entities of the People's Republic of China as well as their nationals who have worked or studied in the Republic of Croatia for more than a year can buy a commercial accommodation that will be used by them or in which they will live in accordance with the actual needs.
The Republic of Congo	Pending (waiting for a clarification of the competent authority).
The Republic of Korea	There is a reciprocity for the acquisition of residential buildings, apartments and other residential places with the additional requirement that the local government and self-government units do not oppose the acquisition.

The Republic of Kosovo	There is a reciprocity.
The Republic of Lebanon	There is a reciprocity.
The Principality of Liechtenstein	A reciprocity for natural persons exists provided that they reside permanently in the Republic of Croatia and that the property is used for the housing of the acquirer or his family; A reciprocity exists when a legal transaction is concluded between spouses or relatives in a lineal kin, i.e. in a collateral kin up to the third degree; A reciprocity for legal entities exists provided the real estate is used for performing an economic activity.
The Republic of Macedonia	There is a reciprocity.
Malaysia	A reciprocity exists, with the value of the property being at least 55000 USD. A legal person must acquire the real estate for business purposes, i.e. the real estate must be used for performing an economic activity.
The Kingdom of Morocco	Pending (waiting for a response from the competent authority).
The Republic of Moldova	There is a reciprocity, except for forests and agricultural land.
The Federal Republic of Nigeria	Pending (waiting for a response from the competent authority).
The Kingdom of Norway	There is a reciprocity if the local government and self-government unit does not object to the acquisition and if the area of a real estate does not exceed 2000 m <sup>2</sup> ; a reciprocity exists if a legal transaction is concluded between spouses or relatives.
New Zealand	A reciprocity exists if no higher real estate value is acquired (more than 10 million New Zealand dollars or a land larger than 5 hectares), (if such a real estate is acquired, then the acquisition will be possible with the fulfillment of the conditions stipulated by law).
The Republic of Panama	A reciprocity exists with the limitation: the impossibility to acquire a real estate located at distances less than 10 km from the state border.
The Republic of Paraguay	There is a reciprocity.
The Russian Federation	There is a reciprocity.
The Republic of Singapore	Pending (waiting for a further clarification from the competent authority).
USA	There is a reciprocity regarding the following federal states: Alabama, Arizona, Alaska, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island,

	South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming; while for the following states a permanent residence is a condition: Arkansas, Hawaii, Kentucky, Minnesota, Mississippi, New Hampshire, Oklahoma and Vermont.
The Republic of Serbia	There is a reciprocity.
The Swiss Confederation	A reciprocity exists with the condition of a permanent residence in the Republic of Croatia for a natural person, and for a legal person the condition is the carrying out of an economic activity (the real estate should be used solely for the economic activity).
The Republic of Turkey	There is a reciprocity.
Ukraine	There is a reciprocity.
The Republic of Venezuela	Pending (waiting for a notification from the competent authority).

#### 6.4. Additional sources

- The scope of work of the State Property Ministry,

<https://imovina.gov.hr/o-ministarstvu/djelokrug-82/82>

- Real estate purchase by foreign citizens,

<https://gov.hr/moja-uprava/stanovanje/kupnja-prodaja-i-najam-nekretnine/kupnja-nekretnina-za-strane-drzavljanje/1618>

- The acquisition of real estate ownership rights,

<https://pravosudje.gov.hr/pristup-informacijama-6341/najcesca-pitanja-i-odgovori/stjecanje-prava-vlasnistva-nekretnina/6674>

#### 6.5. Exercise and questions

##### 1. Questions

**1. Who is responsible for the implementation of the procedure for the acquiring of the right of ownership by foreign persons with the exception of nationals and legal persons from the EU Member States?**

1. Land registry courts
2. Ministry of Justice of the Republic Croatia
3. Ministry of the Interior
4. Ministry of State Property

2. Pursuant to the provisions of the Treaty on the Accession of the Republic of Croatia to the European Union, citizens of the European Union cannot acquire agricultural land from the date of the accession of the Republic of Croatia to the European Union for the next:

1. 4 years
2. 5 years
3. 6 years
4. 7 years

## 2. Exercise

There are investors (legal persons) from Bosnia and Herzegovina, Qatar and Malaysia, interested in buying a real estate in the Republic of Croatia. Advise investors on whether there is a reciprocity between these countries regarding the purchase of a real estate and possible limitations.

Answer

Choose the answer:

- a) correct
- b) partly correct/ incomplete
- c) incorrect

## 7. Spatial planning

### 7.1. Theoretical framework

Spatial planning provides conditions for the use, protection and management of the space of the Republic of Croatia as a particularly valuable and limited national resource, thus creating the prerequisites for social and economic development, the protection of the environment and nature, the quality of construction and the rational use of natural and cultural resources.

The Physical Planning Act (Official Gazette 153/13, 65/17) regulates the spatial planning system: goals, principles and subjects of spatial planning, monitoring of space and spatial planning, conditions for spatial planning, adoption of the Spatial Development Strategy of the Republic of Croatia, spatial plans including their design and adoption process, spatial plans implementation, organization of construction land, provisions for the management of construction land and a supervision.

Spatial planning is a permanent process that involves knowing, verifying and evaluating the possibilities of the use, protection and development of space, making and adoption of spatial plans and monitoring of the implementation of spatial plans and the condition in space.

### 7.2. Important: The connection between spatial planning and construction

Spatial planning is a multidisciplinary activity that is implemented through the adoption of spatial plans and then by a defining of a legal relationship by a relevant spatial planning norm, i.e. by the issuance of individual acts for the implementation of spatial plans: location or construction permits, permits for a change of purpose and use of buildings, decisions on defining of a construction parcels and a parcelling survey.

According to the professional article of A. Žagar (2018), spatial plans prescribe the conditions for the construction of buildings and the implementation of other interventions in space. Those are the general normative acts adopted by the representative bodies, whereby the Physical Planning Act has specified that spatial plans have a legal power and nature of bylaws. They must contain a textual and graphical part, which is a characteristic that makes

them specific in comparison to other regulations. They are adopted at state, regional and local level. A spatial plan must comply with the Physical Planning Act and the regulations based on the Act. A spatial plan of the lower level must be consistent with a spatial plan of a higher level, and the spatial plan of the narrower area with a spatial plan of the wider area of the same level. Spatial plans of the same level must be mutually consistent. A spatial plan of the local level of a narrow area may stipulate stricter quantitative and qualitative conditions and measures for the implementation of space interventions, i.e. higher spatial standards than those prescribed by a spatial plan of the local level of the wider area.

A spatial plan is the fundamental document of spatial planning of each unit of local self-government. After the public discussion has been held, the plan is adopted by the representative body of the local self-government unit, i.e. municipal or city council. A spatial plan of a big city, a town or a municipality determines the directions for the development of the activity and the purpose of the area and the conditions for sustainable and balanced development in the area of a big city, town or municipality. The spatial development of a borough or part of a borough is regulated in more detail by an urban plan, i.e. by a detailed organization plan which, in accordance with the spatial plan, is also adopted by the representative body of the local self-government unit.

The spatial plan of a county is the basic document of spatial planning of the unit of regional self-government. It defines the goals of spatial planning and determines the rational use of space in accordance with the neighbouring counties, spatial development and space protection. An integral part of the spatial plan of a county, i.e. the City of Zagreb may also be a spatial plan of areas with special features for the areas of natural value of the county or the City level determined by a special law. The spatial plan of a county or the City of Zagreb is adopted by the county or the City council.

Spatial plans are implemented by issuing: 1 a location permit, 2 a building permit, when a building permit is issued as a unified act approving construction and an act of implementation of spatial plans, 3 a permit for change of the purpose and use of a building, 4 a decision on determining construction parcel and 5 a parcelling survey.

Spatial plans of the higher order (spatial plan of a city or municipality) stipulate the obligation to draft implementing documents of spatial planning:

- Urban Plan of Spatial Organization (UPU)
- Detailed Spatial Organization Plan (DPU)

The Urban Plan of Spatial Organization further defines the spatial development of a borough or part of a borough with the basis of spatial and functional solutions, conditions and design of individual spatial units of the borough. The Urban Plan of Spatial Organization is to be made for the unconstructed parts of the construction area of a borough and for unconstructed separate construction areas outside a borough and for parts of those areas planned for an urban renewal.

The Detailed Spatial Organization Plan, in accordance with a spatial plan of a big city, town or municipality, i.e. with an urban plan of spatial organization, defines in detail the conditions for the construction and development of specific spatial interventions, especially in terms of their purpose, location, size, general directions of organization and the mode of the connecting to the public utility infrastructure. Furthermore, it determines the measures for the protection of the environment, natural, cultural, historical and other prescribed values.

### **7.3. Experts' tips**

The location permit determines whether the planned intervention is in accordance with the spatial planning documentation and other relevant regulations as well as the conditions under which it can be performed. The location conditions that are determined by the location permit are the location and position of the interventions in the area, type of works (construction or reconstruction of a building, etc.), the purpose of the building, the size of the building, the size and the shape of the building particle, i.e. the scope of the intervention in the space, the conditions for the connection of the building to the traffic and public utility infrastructure, measures to prevent environmental damage, the special conditions of competent public authorities (water regulation conditions, conservation conditions, etc.) and the like. An integral part of the location permit is a design project which, among other things, determines the position of the building on the building particle, i.e. the scope of the intervention in the space.

Before purchasing any real estate, an interested person may request the issuance of the location information regarding a particular land. The location information is issued with the aim of getting familiar with the purpose of the space and the conditions for carrying out the intervention in the space according to spatial plans regarding a particular land. The administrative body in whose territory the land is located issues the location information on the request of the interested party within eight days from the submission of the request.

Spatial plans can be found in the Physical Planning Information System  
<https://ispu.mgipu.hr/>.

### **7.4. Additional sources**

- Spatial planning,  
<http://www.mgipu.hr/default.aspx?id=7578>

- Spatial plans,  
<http://www.mgipu.hr/default.aspx?id=3665>



## 7.5. Exercise and questions

### 1. Questions

#### 1. What does the urban plan determine?

1. It determines in detail the spatial development of a borough.
2. It determines in detail the spatial development of a county.
3. It determines in detail the spatial development of a local self-government.
4. It determines in detail the spatial development of a city.

#### 2. What a detailed plan of organization does not determine in detail?

1. The conditions for the construction and organization of certain interventions in space.
2. The mode of connecting to the public utility infrastructure.
3. The environment protection measures.
4. Urban renovation of boroughs.

### 2. Exercise

An investor has an entrepreneurial idea of building an apartment complex on a land particle. Since he is not sure about the possibilities of construction, he is asking for advice about the location conditions. Which documents will you consult to provide advice to the investor in order to realize his project?

Answer

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## **8. A real estate market of special interest to investors**

### **8.1. Theoretical framework**

The recovery of the economy and the GDP growth of the Republic of Croatia automatically create a positive investment environment that has a direct impact on the real estate market. The geopolitical situation is favourable for the tourism in the Republic of Croatia, but it is also favourable for the real estate market in the Adriatic area. Undoubtedly, the Republic of Croatia is significantly dependent on tourism, which is one of the most important economic branches. In line with the development of tourism and the significant annual increase in overnight stays, property prices are significantly increasing. For example, the growth of Zagreb as a tourist destination has resulted in the repurposing of the residential apartments in Donji grad into apartments for rent, and in the fact that most real estate buyers buy an apartment in that part of the city due to a short-term rent, which has led to the lack of small apartments for sale in the area. In rural areas of the Republic of Croatia, for example in Slavonia and Lika, a real estate demand almost doesn't exist, and prices drop regularly.

### **8.2. Important: Entrepreneurial zones and entrepreneurial support institutions**

Entrepreneurial zones and support institutions enable the performance of entrepreneurial activities in standardized conditions with high infrastructure equipment. Entrepreneurial infrastructure in the Republic of Croatia encompasses entrepreneurial zones and entrepreneurial support institutions which are regulated by the Act on the Promotion of Entrepreneurial Infrastructure. The purpose of this Act is to enable existing and potential beneficiaries (entrepreneurs) to start and conduct entrepreneurial activities in standardized conditions with high infrastructure equipment within the entrepreneurial zones and entrepreneurial support institutions and in a competitive and transparent system of incentive measures and benefits, both at the initial investment stage and at the stage of expansion of the existing investment activities of entrepreneurs operating within the entrepreneurial infrastructure.

Entrepreneurial zones are infrastructurally equipped areas defined by spatial plans with the purpose of carrying out certain types of entrepreneurial, i.e. economic activities. The basic characteristic of entrepreneurial zones is the joint use of infrastructurally equipped and organized space by entrepreneurs to whom, by doing business within the entrepreneurial zone, is enabled the rationalization of the business and the use of the available resources of the entrepreneurial zone with other users of the entrepreneurial zone.

On the other hand, entrepreneurial support institutions are economic entities focused on creating a quality, user-oriented entrepreneurial environment in the Republic of Croatia and implementing programs aimed at entrepreneurship development. Entrepreneurial support institutions are:

- Development agencies (local, county, for specific activities) - are responsible for the operational implementation of measures for the development of the economy and entrepreneurship, stimulating and attracting investments, and initiating and implementing projects to stimulate the development of the economy and

entrepreneurship, by uniting the work of business entities, local and regional entrepreneurial institutions, and higher education institutions as well as knowledge centers.

- Entrepreneurial centers - are responsible for the operational implementation of measures for the development and promotion of entrepreneurship in the local and/or wider area (county, region) and they are the centers of professional and educational support to entrepreneurs for the development of entrepreneurship in their communities.
- Business incubators (entrepreneurial, for new technologies) - are responsible for helping and supporting entrepreneurs at the early stages of the development of entrepreneurial projects and providing professional, technical and educational assistance in starting entrepreneurial projects and businesses and their rapid and sustainable development.
- Entrepreneurial accelerators – are responsible for providing support to entrepreneurs in the post-incubation phase, i.e. in the phase of the development and expansion of business operations on the domestic and foreign markets.
- Business parks - provide physical space, land and resources to accommodate small, medium and large entrepreneurs on a commercial basis, with a special focus on attracting domestic and foreign investments.
- Science and technology parks - are set up to commercialize scientific results and encourage collaboration between scientists and businessmen.
- Competence centers - conduct research projects of developmental or productive nature and develop competences in certain areas and with which other business entities can agree on research and development services for the purpose of strengthening certain industrial branches.

The founders and managers of the entrepreneurial infrastructure, according to the law, are individual legal entities or consortium composed of the following legal entities: the Republic of Croatia autonomously or in a cooperation with units and bodies of local and regional self-government or other legal entities; units and bodies of local and regional self-government; institutes of higher education, scientific organizations, and professional and other associations and other legal persons as founders, i.e. managers of the entrepreneurial infrastructure in the Republic of Croatia who are registered for activities that promote the development of entrepreneurial infrastructure and/or which are engaged in and/or promote research, innovation and technology development in the business sector.

The law stipulates the establishment of the Register of Entrepreneurial Infrastructure, a systematic database within the Ministry of Economy, Entrepreneurship and Crafts, the competent ministry for entrepreneurial zones and entrepreneurial support institutions, while all potential investors and other interested persons can get an insight into the Register on the following website: <http://reg.mingo.hr/pi/public/>.

### **8.3. Experts' tips**

Entrepreneurial zones are infrastructurally equipped and organized areas within which entrepreneurs jointly use the available resources of the zone and thus rationalize business costs, and this rationalization of costs directs businesses to operate within the business zones.

The content of entrepreneurial zones and support institutions is covered by the Act on the Promotion of Entrepreneurial Infrastructure. The aim is to enable existing and future entrepreneurs to enter into entrepreneurial activity and to perform it in standardized

conditions with high infrastructure equipment and in a public and competitive system of incentives and benefits, at the time of an initial activity, as well as later in the expansion of existing investments within the entrepreneurial infrastructure.

In case that a potential investor wants to invest in a specific location, it is certainly advisable to contact the entrepreneurial zone in that location.

#### **8.4. Additional sources**

- Register of Entrepreneurial Infrastructure,

<http://reg.mingo.hr/pi/public/#>

- Entrepreneurial infrastructure,

<https://gov.hr/moja-uprava/poslovanje/pokretanje-poslovanja/poduzetnicka-infrastruktura/1842>

## 8.5. Exercise and questions

### 1. Questions

**1. The list of entrepreneurial zones and entrepreneurial support institutions can be checked in:**

1. The Register of Entrepreneurial Infrastructure
2. The List of Entrepreneurial Infrastructures on the websites of the counties
3. The Register of Entrepreneurial Infrastructure in the Croatian Chamber of Economy
4. The Act on the Promotion of Entrepreneurial Infrastructure

2. Which of the following is not an entrepreneurial support institution?

1. Business incubators
2. Business parks
3. Entrepreneurial centers
4. Entrepreneurial camps

### 2. Exercise

An investor has a project idea of a investment in the Primorje-Gorski Kotar County. Taking into account that he needs a complete infrastructure, he would like to start his business in an entrepreneurial zone. Advise the investor regarding which entrepreneurial zones are located in the Primorje-Gorski Kotar County.

Answer

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## **9. Real estate brokerage**

### **9.1. Theoretical framework**

The real estate market is based on the need of the seller to sell the real estate as successfully and quickly as possible and on the buyer's wish to buy it as cheaply as possible. Such diverse interests require the need for mediation by a third person who will balance the relationship between the two sides (Kulaš, Benedeković, 2017).

### **9.2. Important: Brokerage in real estate transactions**

A real estate brokerage activity is a specialized service activity which is in the Republic of Croatia regulated by the Real Estate Brokerage Act. This Act stipulates the conditions for:

- performing real estate brokerage activities,
- the conclusion of a contract regarding a brokerage in real estate transactions,
- general business conditions, rights and obligations of real estate brokers,
- real estate brokers in real estate transactions and principals,
- a brokerage fee,
- a professional exam for performing a brokers's job
- a supervision and administrative measures relating to real estate brokerage.

According to the Real Estate Brokerage Act, the Croatian Chamber of Economy keeps the Register of Real Estate Brokers. The form, content and manner of keeping the Register are governed by the Ordinance on the Register of Real Estate Brokers. The Register records the data on legal and natural persons to whom the Ministry of Economy, Entrepreneurship and Craft has issued a decision on the fulfilment of conditions for conducting brokerage in real estate transactions.

The Croatian Chamber of Economy enters real estate brokers in the Register based on the decision of the Ministry on fulfilling the conditions for real estate brokerage. The deletion of real estate brokers from the Register is carried out on the basis of the decision of the Ministry to delete a broker from the Register. The Register is public. The Register contains the following data:

- registry entry number
- date of registration
- the number and date of the Decision of the Ministry on fulfilling the conditions for conducting real estate brokerage
- basic information on a business entity: identification number, annotation whether it is a company, a sole trader or a craftsman, name and address, business address, county, telephone, fax, e-mail
- information on the real estate broker/brokers who is permanently employed with the agency
- insurance company where the real estate broker is insured

At the written request, the Croatian Chamber of Economy, i.e. county chambers within the Croatian Chamber of Economy, issue a certified extract from the Register according to which

an investor can check the legitimacy of the real estate brokerage agency registered in the Register.

### **9.3. Experts' tips**

In the event that an investor is uncertain about the authorization of a real estate broker, the Croatian Chamber of Economy keeps the Directory of Real Estate Agents. The form, content and manner of keeping of the Directory are regulated by the Ordinance on the Directory of Real Estate Agents.

The Directory contains the data on real estate brokerage agents who have been issued a Decision on Entry into the Directory by the Ministry of the Economy, Entrepreneurship and Crafts. The Croatian Chamber of Economy performs the entry on the basis of the Ministry's Decision on Entry of an agent into the Directory. The deletion of an agent from the Directory is done on the basis of the Ministry's Decision to delete an agent from the Directory. Upon a written request, the Croatian Chamber of Economy, i.e. the county chambers within the Croatian Chamber of Economy, issue a certified extract from the Directory. The Directory is public and it is allowed to have an insight into it.

### **9.4. Additional sources**

- Real estate brokerage,  
<http://posredovanje.hgk.hr/posredovanje/>

### **9.5. Exercise and questions**

#### 1. Questions

1. The legality of real estate agencies can be checked by a written request submitted to:

1. Ministry of State Property
2. Ministry of Justice of the Republic of Croatia
3. Municipal Court
4. Croatian Chamber of Economy

2. Who issues a decision on the fulfilment of the conditions for conducting real estate brokerage?

1. Ministry of State Property
2. Ministry of Justice of the Republic of Croatia
3. Ministry of Economy, Entrepreneurship and Crafts
4. Croatian Chamber of Economy

#### 2. Exercise

An investor wants to purchase a real estate using a real estate agency, but he is not sure of the authenticity and expertise of the real estate agent. Before considering his case, what would you advise him regarding checking the real estate agency?

Answer

Choose the answer:

- a) correct
- b) partly correct / incomplete
- c) incorrect

## References

- Insight into ownership certificates,  
<https://oss.uredjenazemlja.hr/public/!rServices.jsp?action=publicLdbExtract>
- The role of land registers in legal transactions,  
<http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-6/6-forum-Uloga-zemljisnih-knjiga-u-pravnom-prometu-nekretnina.pdf>
- Real estate valuation,  
<http://www.mgipu.hr/default.aspx?id=22160>
- Real estate valuation,  
<http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-7/7-forum-Metodologije-procjene-vrijednosti-nekretnina.pdf>
- Factors affecting real estate prices,  
<https://zagrebmax.hr/faktori-utjecaja-na-cijenu-nekretnine/>
- Tips for investing in real estate,  
<https://www.maris.hr/hr/cesto-postavljana-pitanja/>
- Overview of the real estate market in the Republic of Croatia,  
<https://www.eizg.hr/publikacije/serijske-publikacije/pregled-trzista-nekretnina-republike-hrvatske/4273>
- The study of the real estate market in Croatia,  
[http://www.uredjenazemlja.hr/UserDocsImages/dokumenti/zavrsne\\_analize\\_i\\_studije/Studija\\_trzista\\_nekretnina\\_Final\\_sa\\_slikama\\_i\\_predgovorom\\_i\\_.pdf](http://www.uredjenazemlja.hr/UserDocsImages/dokumenti/zavrsne_analize_i_studije/Studija_trzista_nekretnina_Final_sa_slikama_i_predgovorom_i_.pdf)
- Warnings related to investing in real estate,  
<http://www.agenti.hr/info-klijent/vazna-upozorenja/>
- Real estate valuation methodology,  
<http://www.agenti.hr/sadrzaj/info-agent/strukovni-forumi/forum-7/7-forum-Metodologije-procjene-vrijednosti-nekretnina.pdf>
- Real estate valuation rules,  
<https://www.jutarnji.hr/arhiva/sedam-pravila-za-procjenu-nekretnine/3262706/>
- The acquisition of ownership rights,



<https://pravosudje.gov.hr/stjecanje-prava-vlasnistva/6183>

- Purchase of real estate,

<https://gov.hr/moja-uprava/stanovanje/kupnja-prodaja-i-najam-nekretnine/kupnja-nekretnine/155>

- The scope of Work of the State Property Ministry,

<https://imovina.gov.hr/o-ministarstvu/djelokrug-82/82>

- Purchase of a real estate by foreign citizens,

<https://gov.hr/moja-uprava/stanovanje/kupnja-prodaja-i-najam-nekretnine/kupnja-nekretnina-za-strane-drzavljanke/1618>

- The acquisition of real estate ownership rights,

<https://pravosudje.gov.hr/pristup-informacijama-6341/najcesca-pitanja-i-odgovori/stjecanje-prava-vlasnistva-nekretnina/6674>

- Spatial planning,

<http://www.mgipu.hr/default.aspx?id=7578>

- Spatial plans,

<http://www.mgipu.hr/default.aspx?id=3665>

- Unique Register of Entrepreneurial Infrastructure,

<http://reg.mingo.hr/pi/public/#>

- Entrepreneurial infrastructure,

<https://gov.hr/moja-uprava/poslovanje/pokretanje-poslovanja/poduzetnicka-infrastruktura/1842>

- Real estate brokerage,

<http://posredovanje.hgk.hr/posredovanje/>

## Module 8. BASICS OF COUNSELLING AND NEGOTIATION

### Introduction

Various skills and techniques are needed when providing advice, information and/or knowledge for foreign investors, including negotiation and communication ones. To use them on professional level, they should be improved through specialized educational or training programs. This module covers the content of relevant basic techniques and skills, their useful application and recommendations for further development on the individual basis.

### Glossary

**Communication:** the imparting or exchanging of information by using verbal (conversational) or nonverbal (physical) signs/movements

**Adviser:** a person qualified to provide advice and/or advisory services

**Giving advice:** a process in which an adviser talks less and immediately gives a lot of information

**Advising:** a process of enabling to make choices; it does not include giving advice

**Client:** a person seeking advice

**Personality:** the combination of characteristics or qualities that form an individual's distinctive character expressed through the behaviour

**Empathy:** the ability to understand and share the feelings of another

**Tolerance:** the ability or willingness to tolerate the existence of opinions or behaviour that one dislikes or disagrees with

**Facial expression:** motions or positions of the muscles of the face

**Gesture:** a movement of part of the body used to express an idea or meaning (non-verbal communication)

**Nod (head):** A nod of the head is a gesture in which the head is tilted in alternating up and down and in many cultures (but not universally, i.e. Greece) it indicates agreement, acceptance or acknowledgment.

**Mirroring:** The behaviour in which one person subconsciously imitates or consciously attempts to emulate the gesture, speech pattern, or attitude of another

**Negotiator:** a person who negotiates

**Interlocutor:** a person who takes part in a conversation or dialogue.

**Personality:** a set of characteristics that distinguish an individual and are shown through his/her behaviour

## 1. COUNSELLING SKILLS

### 1.1. Overview / Theoretical framework

This Unit is designed to introduce counselling skills and techniques. It will familiarise you with the basic features of the adviser's profession.

After acquiring knowledge from this Unit, you will be able to:

- understand the profession and role of the adviser
- identify the difference between advising and counselling
- apply basic counselling skills and techniques.

### 1.2. Introduction

PROFESSIONAL ADVISER is an expert professionally trained and qualified to give information, explanations and advice in specific areas or for specific needs to an individual, group of people or organization. He is an expert in a particular area, capable of offering swift and comprehensive insight and complex services, while in other areas he is professionally trained or instructed to the level of expertise required for providing services. In the case of more complex services that are not in his area of expertise, professional adviser uses and/or proposes the services of other professionals.

The adviser helps in research, planning, decision-making and implementing them by providing information and suggestions, staying neutral, objective and focused on the ultimate interest of his client.

ADVISER FOR DIRECT FOREIGN INVESTORS has some additional roles. He is an expert professionally trained and qualified in specific areas to provide information, explanations and advice, and can offer advisory services to people across different linguistic, cultural and geographical regions. The communication sensitivity that prevents any misleading interpretation is hugely important. Cultural diversity should always be taken into account, with special attention to differences in education, age, gender, as well as in a political, religious and racial affiliations.

Giving advice and advising/counselling are two different processes.

**Giving advice** is a process which involves less listening and more talking, instant response to questions, explaining, giving directions and information.

**Advising/counselling** is a process which involves more listening, asking and not talking, as well as helping the client to reach the point where he is capable of finding his own solutions by implementing certain techniques.

**Example:**

**One** financial adviser can use his **professional expertise** to help his clients to manage and increase their assets.

**Another** financial adviser, using his **counselling skills**, can help a client to secure financial independence (empowering him or her to become more confident and realize what he or she wants).

A Foreign direct investment adviser is an ideal combination of both, as he is qualified for giving advice as well as for counselling.

### **1.3. Adviser's skills and traits**

The counselling skills are not only acquired through knowledge but through experience as well. Skills on their own are not sufficient to allow the adviser to successfully complete the counselling process to the client's satisfaction. The adviser should also possess certain traits that, in addition to the acquired skills, make him an accomplished expert.

#### **Important adviser's skills and traits:**

communicative  
calm  
neutral  
sensitive to ethical values  
considerate  
friendly  
tactful  
curious  
objective  
polite  
witty  
relaxed  
resourceful  
adaptable  
with positive attitude  
influential  
pleasant-looking.

A skilled adviser who will gain the trust and confidence of the client needs to have additional qualities:

- organizational skills in gathering and sharing information with the client
- responsibility for the accuracy of gathered and shared information
- good connections with experts and institutions out of his own area of expertise.

The basic counselling skills include: listening, empathy, understanding, focusing on the client, tolerance, consideration, a broad view, an ability to cooperate and accept, a broad culture, a fresh and ongoing curiosity, interest in the client, an understanding personality, a good verbal communication, accepting responsibility, an excellent memory, an awareness and expertise in the field in which counselling is provided.

Listening is the main skill. It is the most important activity, consistently applied throughout the entire counselling process.

**In counselling process, the Advisor should apply following skills:**

listening - following the body language - writing notes;  
listening - asking questions - writing notes;  
listening – asking more questions (being confident about received information);  
listening - following the body language - writing notes;

no interrupting the client (no speeding the process – no asking questions in advance);  
no promising – providing high quality information;  
no making decisions – offering opportunities and solutions.

#### **1.4. Listening**

Listening skills are taught. The high art of efficient listening is obtained by training and experience. Professional listening is not a simple process that is commonly used in everyday communication.

Listening means paying full attention to the client, being mindful and fully focused not only on the client's words, but also on the message conveyed through them. Listening also includes paying attention to body language and facial expression.

Listening leads to asking the right questions at the right time. By asking the right questions, the client is encouraged to specify and expand his verbalised ideas.

Listening means paying attention to every little detail, and the most important thing in listening is to learn how to remain silent, how to observe, and how to ask questions in order to get all necessary information.

#### **1.5. Paying attention and asking questions**

Paying attention is the most difficult skill to learn as it requires a lot of experience and practice in keeping your thoughts focused while listening to the other person. If it is necessary, notes should be taken during listening. This is especially preferable in the beginning of doing a counselling job. It is also very important **to listen to the client's speech.**

Questions should not be asked in advance. They should be related exclusively to what the client just has said. The adviser has to wait patiently for the client to move on to another topic.

If the client does not go to a new topic, the adviser should write down any questions related to that topic, and ask them at the end of the client's presentation. The adviser should also not

suggest to the client to move on to a different subject prematurely. Otherwise, the client may lose focus and miss some important information.

Issues related to the subject that the client has not spoken about should be asked at the end of the presentation only if the adviser is missing crucial information that could help him to explain to the client more details about a topic or to answer his questions.

Jurković M. (2017) lists seven different types of questions which can be asked but one must have a clear idea why the question is formulated in a certain way and at a particular time.

**Open questions** are usually used to encourage the other person to open so that you can collect the information you need (they often start with why, what, where, what and how).

**Examining questions** can be used to clarify something that has already been said, or to learn more about the subject. This form of questions can be useful in creating relationships, but it should not be overused, as it may make the interlocutors feel uncomfortable as if they were questioned or even attacked.

**Closed questions** require the answer "yes" or "no".

**Reflecting questions** are often used to check and clarify one's own understanding. This style sends the question back to the speaker and to what he has just said and allows the interlocutor to fully analyse all the information received and his own knowledge on a particular situation.

**Main or suggestive questions** should be used with caution because they indicate that certain answer should be given in response, which is contrary to the concept of active listening.

**Hypothetical questions** allow an assessment in what way a person could respond or what he/she thinks about a possible situation.

**Paraphrasing questions** are one of the best ways to check one's own understanding of the information received from the speaker.

The quality questions will result in quality answers and information, which would help adviser to offer good solutions. When asking questions, the adviser should use **vocabulary understandable to the client** in order to make sure that the client understood questions. Questions should not be too personal even if they might be related to the current client's situation. During the client's presentation, the adviser should ask only about the information required for providing proper guidance and answers.

After the presentation, the client should first receive the information and answers solely related to the areas of his interest. Later, the adviser can ask more questions in order to **redirect** the client to additional areas and possibly offer some other options, ideas and solutions.

#### Premature questions and answers

If:

- the client still has not completed his sentence/thoughts on a subject,

- information is not specified,
- the adviser does not ask enough questions,
- and in that way implies that she or he has no interest in the client's plan or project,

by offering a quick response during the interview the adviser disputes and undermines the seriousness and complexity of the client's project.

In those cases, the client may get an impression that the adviser considers his plan or project to be simple, insufficient, incomplete or even insignificant. The client may also think that he has received quick, superficial and incomplete answers from the adviser. That could result in the client becoming insecure and doubtful.

Quick and premature answers by the adviser show his lack of expertise and awareness. It would be more professional to ask additional questions and to listen.

Only after the client completes his full presentation, the adviser will provide him with information and solutions. The client will then accept adviser's help with more confidence, knowing that he has received all the necessary information and has full insight into a problem. The client will be assured that the adviser has listened carefully to the whole conversation and that he will offer complex solutions, advice and instructions.

The adviser should keep in mind that the client is a foreign investor, whose decisions and further steps should protect and enhance his investment, on which depends the safety and quality of life not only of a foreign investor, but also of all future participants and their families.

That is why it is crucial to listen carefully and to gather as much information as possible.

## 1.6. Empathy - Understanding - Acknowledgment

Empathy is the ability to understand and share the feelings of another. Empathy is learned over time. It is neither sympathy nor highlighting one's own emotional state. With empathy we show our concern and understanding for the client's situation.

By showing empathy, the adviser **sends a message** to the client that he put himself in his situation and therefore he is able to consider the ideas and motives in the same way the client does.

With a nod of the head, a smile, writing notes or by verbal confirmation, the adviser makes clear that he fully understands the client's most important information, wishes and needs.

The adviser has to clearly **confirm**/verbally repeat the key information received from the client in order to ensure him he was listening to her/him carefully and fully understood.

The acknowledgment of the client's information indicates care and respect for him and proves that the adviser is doing his job responsibly. By acknowledgment, the adviser confirms that

she/ he cares for others.

Unclear parts of the conversation should be clarified - the adviser should repeat them and ask the client to confirm that he understood everything properly. Only after the confirmation, the adviser can ask additional questions in order to receive more information, which the client could possibly forget to convey.

### **1.7. Important / Exceptions**

The adviser is personally responsible for his own **emotions**. He cannot allow at any moment his counselling to be controlled by his emotions. Mutual reactions are of crucial importance.

### **1.8. Tips from professionals**

Positive, i.e. correct reactions are learned through exercise. The adviser should always be in charge of the situation regardless of anything unexpected or unpleasant happening during the counselling session. The adviser should always have the freedom to lead a conversation in an appropriate direction.

### **1.9. Additional reading**

If you want to learn more about communication and empathy, important advisor's skills, here is the list of the recommended further reading:

Importance of empathy in communication:

**Alma Career grupacija. "Komunikacija s razumijevanjem – empatija".(online). Available on:**

<https://www.moj-posao.net/Savjet/68085/Komunikacija-s-razumijevanjem-empatija/4/>  
(20.02.2018.)

**Advices how to exercise empathy:**

**Centar Uspjeha.Portal za osobni i profesionalni razvoj. "Empatija – kako bolje razumjeti drugog« (online). Available on:** <http://www.centaruspjeha.com/empatija-kako-bolje-razumjeti-drugoga/> (20.02.2018.)

More about elements and types of empathy:

SkillsYouNeed. "What is Empathy" (online). Available on: <https://www.skillsyouneed.com/ips/empathy.html> (24.08.2018.)

The book which describes a special communication tool, empathic communication, built on the understanding of communication.

Holter Brudal L., Amazon. "Empathic Communication. The Missing Link" (online). Available on: <https://www.amazon.com/Empathic-Communication-Lisbeth-Holter-Brudal-ebook/dp/B00PA0SWB4> (20.08.2018.)



A book about unique relationship between communication and culture and about communication and behavior in relationship with people from different cultural backgrounds. Samovar L.A., Porter R.E., McDaniel E.R. (2013.). *Komunikacija između kultura*. Jastrebarsko, Naklada slap

Samovar L.A., Porter R.E., McDaniel E.R., Amazon. "*Intercultural Communication*" (online). Available on: <https://www.amazon.com/Samovars-Porters-McDaniels-Intercultural-Communication/dp/B0045N7RIG> (24.08.2018.)

## 1.10. Quiz and Exercise

### Questions:

**1. Relating to counselling, ADVISING (giving advice) is a process in which there is:**

- a) listening and talking in equal proportion
- b) more listening and less talking
- c) less listening and more talking
- d) listening and answering questions

**2. Relating to giving advice (advising), COUNSELLING is a process in which the Advisor:**

- a) listens, asks question, remains silent
- b) doesn't give answers
- c) listens and **responds immediately**
- d) asks questions and gives answers

**3. Relating to counselling in ADVISING, the Advisor:**

- a) forces the client to make a decision with special techniques
- b) doesn't response
- c) gives responses promptly, interprets, gives instructions and information
- d) doesn't ask questions

**4. Which of the following answers is not correct?**

**A skilful advisor needs to have these additional qualities:**

- a) organizational skills in gathering and sharing information
- b) responsibility for accuracy of gathered and shared information
- c) good connections with experts and institutions out of his own area of expertise
- d) organizational skills in administration

**5. Basic counselling skills are not:**

- a) empathy, understanding, focusing on the client
- b) tolerance, an ability to cooperate and accept
- c) compassion, assessing and criticizing the client
- d) being understanding and accepting responsibility

**6. What is the most important activity, consistently applied throughout the entire counselling process??**

- a) writing
- b) listening
- c) answering questions
- d) smiling

**7. Listening means paying full attention to the client, being mindful and fully focused not only on the client's words, but also on the message conveyed through them. Listening also includes:**

- a) focus on writing
- b) paying attention to body language and facial expression
- c) paying attention on client's look
- d) constant smiling

8. Which of the following answer is not correct?

**The most important thing in listening is to learn to:**

- a) remain silent
- b) observe
- c) ask questions in order to get all necessary information
- d) focus on writing

**9. What kind of vocabulary advisor should use when asking questions?**

- a) client's vocabulary
- b) gentle vocabulary
- c) professional vocabulary
- d) vocabulary trainers

**10. What is the purpose of asking questions?**

- a) speeding the counselling process
- b) showing interest
- c) to gather more information
- d) showing respect

**11. How does the client perceive premature questions and answers?**

- a) impressed with advisor's skill
- b) satisfied with quick advising
- c) stops talking and writes down the answers
- d) becomes insecure and doubts the advisor's expertise

**12. What is empathy?**

- a) ability to influence on emotional state of another person
- b) ability to understand and share the feelings of another person
- c) expression of sympathy
- d) ability to show the suffering

**13. What does the advisor show with empathy?**

- a) expertise in consulting
- b) concern and understanding for the client's situation
- c) decency
- d) sympathy

### **Exercise 1:**

Ask your co-worker / friend to tell you a short story (10 sentences) about some person's life or an event.

Don't interrupt the speaker. Just listen.

After his speech, write down everything you remember/notice (including details):

---

Ask your co-worker / friend to compare your notes with his or her story.

Write a report:

What

did

you

miss:

---

Regardless the story, what extra did you remember or notice? Write these down:

---

Conclusion:

Did you remember important information from all 10 sentences or less? How many?

How many signals of body language did you notice?

**Solution:**

**Rate the answer:**

- a) good
- b) partially good / incomplete
- c) wrong

## 2. COUNSELLING IN PRACTICE

### 2.1. Overview / Theoretical framework

In this Unit you will learn about practical counselling skills and techniques. It will familiarise you with the Advisor's role in the counselling process and the client's possible motives and reasons.

After acquiring knowledge from this Unit, you will be able to:

- apply body language in counselling
- apply basic communication and speech in counselling
- apply other counselling skills and techniques.

### 2.2. Introduction

Clients seek help from advisers for direct foreign investments for two reasons:

Some of them have already made a decision and know exactly what they want but need advice and help to accomplish it. The adviser should approach those clients in a very simple and direct way. It is assumed that those clients will provide the adviser with accurate and precise information and present their needs and wishes. Once the consultant listened to the client and after asking additional questions got all the necessary information, he would be able to provide the client with all the necessary information and offer him solutions.

The brief listening session will most likely be followed by constructive conversation.

Another category of clients wants "something" and knows approximately what exactly, but they are not sure until they get all the information. Therefore, they investigate different possibilities: who? how? and where? The adviser should apply his best listening and communication techniques on those clients. He should also see into the client's motives in order to be able to help them find ideas and solutions.

### 2.3. Motive for seeking advice

Several different motives for seeking advice:

Some investors are motivated only by the expansion of the market and profits, so they are focused solely on the **job**.

The others want to invest in real estate for **personal reasons** because of residence, family reunion and pleasant casual or permanent stay.

The third types are clients who already reside in the host country and therefore **seek ideas** and opportunities to invest in some jobs in order to be able to afford a longer stay. It is possible that the adviser would be contacted by the investor's family members for the same reason.

## **2.4. How to help a customer to create a job?**

Some clients would be happy to do "anything" because they want to become independent or to be able to stay in the host country. They have some financial resources, but have no business ideas or are not familiar with legal or personal possibilities. Some of them would have unrealistic plans or unachievable objectives that need to be analysed and adapted.

The adviser can help the client by setting up targeted questions. The client should write down questions and answers in order to get an insight into the full picture of his abilities, wishes and needs. That might help in creating business start-up ideas.

### **Some questions for getting business start-up ideas:**

#### **Knowledge, skills and activities:**

Knowledge gained through education?

Skills gained from previous experiences?

Which of your skills have you not used so far?

Knowledge of foreign languages?

Do you have a hobby?

Artistic talents (writing, painting, music)?

Internet and computer proficiency, familiarity with internet based tools?

Do you drive (car, motorbike)?

What do you usually do in your spare time?

What do you like to do the most?

What are your friends and family members doing?

Provided you have enough money and experience / knowledge, what would you most like to do?

#### **Possibilities:**

Working time

Business space

Available finances

Possession of existing equipment

Skills managing finances

#### **Other:**

Independent work or a team work

Indoors or outdoors

Traveling

Jobs that requires a lot of thinking

Administration (working with documents)

Sorting, stacking, neatness

Manual work

Working with machines

Working with data

Driving by car  
Working with animals  
Working with people  
Which categories of people: men, women, children, youth, elderly people etc.  
Troubleshooting  
Organising  
Talk to the people  
Helping people  
Teaching  
Guidance  
Decision making  
Influencing people  
Taking risks

The analysis of questions and answers would provide the platform for decision making. In the next step, the adviser will establish a list of possible jobs and activities that fit into the answers provided. When the client narrows a selection of job start-ups, the adviser will help with suggestions, solutions and all the necessary information to start a business.

## **2.5. Place**

A carefully prepared meeting place can help greatly in maintaining concentration especially in the case of a less experienced adviser. It is very important to remove everything that could cause distractions - outside noise, radio, phones, other people, an unexpected visitors, the objects in front of the adviser and behind the client.

It is desirable to use armchairs, so that both the client and the adviser can relax. If chairs without armrest are used, they should not stay too close to each other so that the clients would not have to cross/move their hands in order to avoid touching. By crossing hands or pulling them backwards people are automatically closing / withdrawing from communication.

## **2.6. Time control**

Time is very important as it is precious and irreplaceable. The power is in the hand of those who control it. Time should be well planned and others should not be allowed to waste it. If the adviser lets the client divert from the topic, it extends the scheduled meeting time by introducing subjects that are not beneficial, therefore the time is wasted for both parties. As a person who leads counselling, the adviser should be the one who evaluates the productivity of time.

Adding some extra time in conversation is not beneficial to either the adviser or the client. The client will get tired or overwhelmed with too many information. The adviser should evaluate whether to extend ongoing meeting or to schedule another one.

## 2.7. Conversation

To communicate does not mean to talk, but to converse. It is the ability to focus on the interlocutor, the ability to listen, respond and suggest.

It is necessary to take care of the client's needs and to direct the conversation towards his wishes and needs. The client must feel that she or he is **important**. Only then they will become willing to listen.

Excessive remarks or examples should be avoided, as well as the adviser's personal examples and problems.

If there is suddenly silence or the adviser does not have the answer ready, the client should be given a general question which would allow him or her to move on to another topic. The client will open the topic that matters to him or her.

A good Advisor should keep the conversation alive, not too slow and boring or interrupted by long pauses. It should also not be going from one unfinished topic to another. On the other hand, a conversation should not be too intense, fast, disturbing or too loud. The adviser should know how to calm the client if he is upset or disappointed with the unexpected answers.

A skilful communication can also result in the client, although not completely satisfied with the answers, leaving completely satisfied with the adviser's services.

In communication, the adviser must keep in mind that both parties are equal interlocutors and that none of them should take over the conversation.

## 2.8. Mirroring

Some clients might be excited and at the same time have fear of the unknown, some are uncomfortable with the idea of making decisions, and some are probably too decisive or worried that they cannot immediately get all the information. Some are not happy because they cannot get the quick answers or the solutions they are used to get in their countries.

The advisor must not allow to being affected by the client's mood as people tend to mirror each other.

The advisor should remain calm, relaxed, confident and should keep on assessing how his body language will mirror the client's mood and when will he use certain behaviour to redirect him into a positive direction.

If the advisor intends to redirect the client towards a positive direction, he should inform the client beforehand that he understands the client's current condition. As soon as the advisor is relaxed, the client will relax too.

The advisor needs to mirror his message to the client. Mirroring should never show what the advisor assumes that the client feels.



## 2.9. Body language

### The client's body language

The client's behaviour should not distract but help the adviser's concentration. With his body language and facial expression, the client emphasizes his information. A body language is a powerful tool that helps the adviser to realise what is very important to his client, what he is emotionally attached to, what the areas of his confidence and doubts are, what he is afraid of, which are the issues he is insecure, worried or excited about. All these are signals that indicate a client's real needs, wishes and plans, as well as his personal attitude or expectations. Body language partially reveals the character and personality of the client.

### The advisor's body language during listening

With his manners and certain movements, the adviser should **draw the attention** of the client and at the same time show his concern, professionalism, courtesy and full attention.

The adviser should be relaxed, leaning backwards. He should not fold hands because it sends a message that he is not open to information or that he disagrees with the client. His notes should be kept away from the client so that it would not distract him. On the other hand, by writing notes the adviser shows that he is listening carefully, recording all the information and that they have the same importance to the adviser as to the client himself.

Every once in a while, the adviser should lightly nod to reassure the client that he actively follows the conversation and understands everything. At the same time, he should use the confirmation words "yes", "understand". He can also use words or questions that would encourage the client to expand or clarify information: "Tell me more about it".... "For example" .... "What do you mean by that?".... "Why do you plan that?" .

If the client leans towards the adviser, the adviser should lean towards the client. If the client becomes impatient, the adviser should lean back, relax and smile. The adviser should not frown if he did not understand something or agree with it. He should ask an additional question or write it down and then later on ask for an explanation or express his opinion about the matter.

The hands should always be kept slightly opened. It symbolises an open space that should invite the client to relax, show trust and bring his ideas, thoughts and feelings forward.

The adviser should be aware of moments when it is appropriate to smile. It is also not advisable to rest head on hands, to scratch, roll a pen in hand, play with some object, or watch what is happening around while listening.

The attention of the adviser should be entirely focused on the client and notes.

Every once in a while, the adviser should check whether he sits upright and relaxed.

### **The adviser's body language during giving advice**

While he is talking and giving information to the client, the adviser often uses his hands. When he wants to show to the client where to sit, where to look or what to pay attention to, the palm of his hand should always be facing **up**. The palm facing down signalizes authority and superiority, while finger pointing signalizes aggression. Both gestures are considered rude.

The hands should indicate calmness, relaxation, readiness to listen and communicate. If the adviser has to show data on the board or paper, a pen should be used instead of a finger or a whole palm. By raising a pen, and never with fingers, the client's attention can be redirected to the other area.

## **2.10. General impression**

### **Hands**

Handshake is a very important gesture. One should always use one hand only. The handshake needs to be adjusted to the client's style and strength. Documents, folders and briefcases are always kept in the left hand so that the right hand can be free for a handshake, for showing the direction to the client, for moving the chair, for greeting etc.

The hand (fingers) on the cheek will convey a positive acceptance. All other gestures in which hand touches the head are not a positive sign.

### **Dress code**

Dress code, smile and gestures make a stronger impression on the client than what the adviser is saying at that moment.

Dressing should be appropriate, neither too relaxed nor too formal. Fashion is changing along the time, but different countries have different customs. The eye is always the first to see and judge. The adviser's main goal is to approach the client at the same level. Therefore, dressing should be moderate, in order not to distract the client or to put him off.

The client should not feel inferior because of the adviser's excessively expensive or inadequate looks. One could get the impression that the adviser is hiding his incompetence behind the "picture of a successful person".

The client should also not get the impression that the adviser does not care at all about how the client will perceive him and that he does not care about his appearance. Ignoring an appropriate dressing code tells the client that he is not important. The client might get impression that the adviser has an extremely high opinion of himself and therefore is not bothered with his appearance, thinking he is superior with his information and knowledge.

## 2.11. Giving advice

After the adviser heard the client, collected and recorded all the information, clarified and received the client's confirmation that everything is properly understood, he can start offering information and answers.

The adviser advises the client by:

- providing detailed information in accordance with the topics the client was talking about;
- suggesting directions and guidelines about taking next steps;
- delivering the facts and necessary information which would enable the client to make a decision.

It is important that the adviser has **carefully** listened and clarified all possible doubts. He does not have to always have a ready answer. Sometimes he will have to seek a solution from an expert. The client will be satisfied if he gets some answers immediately, as well as the dates when he will get answers on other questions, accurate instructions about receiving further expert assistance and more information.

## 2.12. Making Decision

The adviser must not make decisions for the client. Instead, he helps the client to make his own decisions. However, if the client persists in the attempt to make the adviser his decision-maker, the adviser's duty is to help the client make his own decision by asking him additional questions, providing some additional information and indicators. If the adviser skillfully explores the client's motive, it will be an excellent guideline for the answers and the solutions he would offer.

**THE BASIC RULE: The adviser provides information and solutions, the client decides.**

If the client is still hesitant, it means he is either scared to make decisions or is unsure due to lack of information. In that case, if the client is not exhausted, under any kind of emotional pressure or overloaded with excessive information, the adviser will repeat the information and point out to possible solutions and answers. Otherwise, he would suggest a new meeting.

Regardless of the amount of pressure the client puts in his effort to persuade the adviser to make a decision for him, the adviser should always strictly follow the basic rule:

The adviser provides information and solutions, the client decides.

## 2.13. Important / Exceptions

The adviser does not have to be an expert in all areas. He is not a magician and does not have to know all the legal regulations and their current amendments, but is obliged to **check** on all changes or to consult with the expert before giving the information to the client. However, if the adviser is an expert in a particular area, then he has to **regularly get information and continue to learn**, and to be ready to independently and correctly advise the client. A responsible adviser will always contact a specialist for the areas he is not qualified for or does not have sufficient experience.

**The adviser for foreign direct investments** is the person whom the investor has to trust and can contact not only in the initial phase when deciding on the investment, but the person whose counselling services he can use occasionally or permanently for the duration of his residence or work in the host country.

The adviser for direct foreign investments should be a **link** between the investor and other key professionals, while at the same time he should be able to provide as much basic information as possible on his own.

The role of **the adviser for direct foreign investments** is **demanding, complex** and **responsible** as it encompasses a large area of activities for which he needs:

- a wide knowledge range;
- active daily awareness;
- monitoring of administrative changes;
- monitoring of legal regulations;
- following market trends;
- active co-operation with other experts from the field of counselling;
- fluency in foreign language/languages.

## **2.14. Tips from professionals**

Communication with individual with limited communication ability (individuals in stress, under crisis, with emotional difficulties, hearing or speech impairment, visually or other physically impaired persons) should be adapted to the interlocutor (loudness, vocabulary, questions, body language and environment need to be adapted depending on the interlocutor's limitations (possibility of moving, approach, lighting, noise...)).

The complex role of **the adviser for direct foreign investments** includes an excellent knowledge and awareness in all areas of the foreign investor's interest, which would help him to make the final decision.

If a foreign investor has the opportunity to get information about:

- type, procedures and costs of opening a company;
- legislation requirements and the costs regarding running the business;
- accounting;

- real estate investments;
- labour market offers and conditions and employment conditions;
- procedures and conditions for obtaining work and living permit and family reunification in host country;
- the possibilities of using loan and E.U. funds;
- positive sides, advantages and offers of host countries

from one person only and **all in one place**, he will make a decision on investing in the host country faster, safer and with more positive results.

The main objective for **the adviser for foreign direct investments** is a long-term satisfactory interest of both foreign investors and the host country.

## 2.15. Additional reading

To learn more about professional counsellor, active listening, body language and communication skills, the following literature is recommended:

The book which shows readers how to be affective counselor in each aspect of the counseling process with a lot of examples.

Hackney H.L./Cormier S. (2012.), *Savjetovatelj – stručnjak: Procesni vodič kroz pomaganje*, Zagreb, Naklada Slap

Hackney H.L./Cormier S.(2012.), *The Professional counsellor: A process Guide to Helping*, Cambridge, Pearson

*This book* is a powerful tool for anyone wanting to win in a turbulent world that will only continue to move faster.

Kotter J.,(2009.), *Smisao hitnosti*, Zagreb, Lider Press

Kotter J.,(2008.), *A Sense of Urgency*, Brighton, Harvard Business Review Press

### More about active listening

**Skills You Need Ltd.** "Active listening" (online). Available on: <https://www.skillsyouneed.com/ips/active-listening.html> (20.02.2018.)

The Authors examine each component of body language and give you the basic vocabulary to read attitudes, minds and emotions through behavior.

Pease A./Pease.B.,(2011.), *Velika škola govora tijela – Neverbalno izražavanje, kulturološki uzorci sporazumijevanja i čitanje između redaka*, Zagreb, Mozaik knjiga

Pease A.,SCRIBD, "Govor tijela" (online). Dostupno na: <https://www.scribd.com/doc/53271441/GOVOR-TIJELA>

(Pease A./Pease.B. (2006.), *The Definitive Book of Body Language*, London, Bantam

Pease A.,Secret-solution, "Body Language – How to read others' thoughts by their gestures" (online). Available on: <http://www.secret-solutions.com/download/other/BodyLanguagebyAllanPease.pdf> (20.02.2018.)

More about communication skills. In this book the six basic verbal communication models and the 12 non-verbal messages are presented.

**Wetherbe J.C., Wetherbe B., (2005.), *Vještine komuniciranja – Dakle, u čemu je stvar?*, Ljubljana, Orbis**

**Wetherbe J.C., Wetherbe B., (1996.), *So, what's your Point?*, Arisona, Mead Publishing**

The Authors demonstrates the inherent connection between recent technological developments and modern business practices. Each new edition addresses the most essential changes in technology and how they impact the business world, while still covering timeless business skills such as listening, presenting, and writing.

Bové C.L./ Thill J.V. (2013. ) *Suvremena poslovna komunikacija*, Zagreb, Mate

Bové C.L./ Thill J.V., Amazon, “*Business Communication Today*“ (online). Available on:

<https://www.amazon.com/Business-Communication-Today-Courtland-Bov%C3%A9e/dp/0133867552> (24.08.2018.)

**Book about communication in conflict or stressful situation, How to avoid stress or pressure.**

**Kovpak D./Kamenukin.A. (2013), *Na krivoga ste se namjerili: Vještine komunikacijske samoobrane u životu i poslu*, Velika Gorica, Planet Zoe**

An arsenal of powerful questions that will transform every conversation.

Sobel A./Panas J., Amazon. “*Power Questions: Build Relationships, Win New Business, and Influence Others*“ (online). Available on: <https://www.amazon.com/Power-Questions-Relationships-Business-Influence/dp/1491514302> (20.08.2018.)

## 2.16. Quiz and exercise

### Questions:

**1. What should an advisor do when the client knows exactly what he wants, but he doesn't know how?**

- a) check if the client really knows what he wants
- b) give him simple and precise information and directions
- c) investigate the client's motive
- d) insist on other possibilities

**2. What is the first thing to do when the client investigates different possibilities for investment without having concrete ideas?**

- a) investigate the client's motive
- b) suggest immediately several possibilities
- c) investigate the client's financial opportunities
- d) investigate the client's family situation

**3. Why is very important when preparing a meeting place?**

- a) that the Advisor can show his status
- b) to have enough space for moving during the consultation
- c) that the client feels important
- d) to remove everything that could cause distractions

**4. Who should control time during counselling to be productive?**

- a) counsellor's advisor
- b) the client
- c) the client and the advisor
- d) the advisor

**5. When advising, communication should be:**

- a) with long pauses
- b) humorous
- c) directed towards Advisor's expertise
- d) directed towards clients wishes and needs

**6. What does the Advisor need to mirror?**

- a) what she assumes that the client feels
- b) what she wants the client to think about her
- c) what she thinks that the client wants to see
- d) what message she wants to convey to the client

**7. What answer is not correct?**

**From the client's body language an Advisor can recognize a client's:**

- a) emotional state
- b) health condition
- c) character and personality
- d) personal attitude and expectation

**8. What is the basic rule in giving advice?**

- a) the advisor decides if this is the client's wish
- b) the advisor asks questions, the client gives the answers
- c) the client provides solutions, the advisor decides
- d) the advisor provides information and solutions, the client decides

**9. What is important for high self-confidence?**

- a) high self-discipline
- b) proof of the long standing professional experience
- c) a big ego
- d) expensive clothes

**Exercise:**

**Prepare a short speech (10 sentences). Subject: real estate, description of the house, surroundings and location. Read the text several times and try to memorize it.**

**Ask three people to sit and to take different positions. They should keep silent until you finish your speech.**

**Give a speech and follow the body language of your audience.**

**At the end of the speech, describe what you concluded from their body language and then listen to their comments.**

**Write a report (your conclusion and their comments):**

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**How much were you distracted with the behaviour of your listeners?**

**Estimate percentage: did you give the whole speech?**

**Estimate percentage: How many signals of body language did you notice and did you evaluate this behaviors properly?**

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**Solution:**

**Rate the answer:**

- a) good
- b) partially good / incomplete
- c) wrong



### **3. TYPES OF PERSONALITIES**

#### **3.1. Overview / Theoretical framework**

In this Unit you will learn about types of human personality. It will familiarise you with different types of personality and personality blends.

After acquiring knowledge from this Unit, you will learn how to:

- recognize personality types
- adapt to the different personality types.

#### **3.2. Introduction**

Personality is the combination of characteristics and qualities and includes: temperament, intellect, physical appearance, character and behaviour that are peculiar to a specific person and form an individual's distinctive character. The individual shows personality through the way of accepting the environment and through the way of representing himself/herself in the environment.

In order to successfully approach the client and to be able to share information in a manner acceptable and understandable to the client, the adviser should recognize his personality type.

#### **3.3. How to recognize the client's personality type?**

Littauer (2000) describes in a simple way four basic types of personality: Popular Sanguine, Powerful Choleric, Perfect Melancholy and Peaceful Phlegmatic. Each of these four types is a unique mix of different personality traits, allowing for a full spectrum of personalities.

##### **Popular Sanguine**

Popular Sanguine is a cheerful, busy, excited personality type with prominent gestures; chatty, able to talk about any subject at any time, creative and entertaining, witty, charming, optimistic; he/she loves recognition, bright colours; he/she is interested in fun, activities, other people; he/she likes to be accepted, popular; he/she likes attention, praises and easily makes friends.

Popular Sanguine does not like boredom, criticism, too much data and details or a strict time schedule; he/she does not take care of spending; he/she is often distracted, unorganized and hypersensitive.

### **Powerful Choleric**

Powerful Choleric likes to be in control; he/she is capable of taking leadership in any situation; he/she has a good sense of effectiveness; he/she is quick to respond, with a high self-confidence and superior attitude in behaving and dressing; he/she likes to command; he/she is impatient, dominant, makes fast and correct decisions, effective, trustworthy; he/she believes in success, likes praises and cooperates effectively with people who support him/her; he/she loves challenges, sensational and powerful things.

Powerful Choleric does not let others to make decisions; he/she does not like ineffectiveness and when things go slow; he/she does not like losing control over the situation and does not submit to authority.

### **Perfect Melancholy**

Perfect Melancholy is a stable, well-organized, compassionate person with high standards; he/she has a refined approach to others; a perfectionist, a good organizer, creative, serious and emotional, self-critical, neat, cautious, with long-term goals, sensitive to others' emotions, analytical, detailed; he/she seeks perfection in everything and is exceptionally interested in the details; he/she loves serious and constructive people.

Perfect Melancholy does not like casualness, superficiality, disorder, unpredictability, indecision, low standards; he/she is scared of making mistakes and does not like people who are late.

### **Peaceful Phlegmatic**

Peaceful Phlegmatic is a calm, polite, relaxed, balanced, stable, unbiased and collected personality type; he/she does not make impulsive decisions; he/she is subjective, likes simplicity and relaxation, light life; he/she avoids conflicts and problems and easily let others do their jobs and make decisions; he/she is strong and steady.

Peaceful Phlegmatic does not like tension, conflicts, problems, risks, challenges, surprises, too stressful situations; he/she is hesitant, does not like setting goals; he/she is not fond of noisy and loud people; sometimes he/she lacks good ideas and needs to be prompted by others.

### **3.4. Personality blends**

Aforementioned basic personality types are in most cases combined. The most common is the blend of two different personality types that may appear in an equal proportion (percentage) or one personality type prevails.

Let's take a look on interesting combinations of basic personality types!

Littauer&Littauer (2000) elaborate on four basic combinations of personality types:

**Natural blends:** outgoing, optimistic, outspoken

<b>POPULAR SANGUINE</b>	<b>POWERFUL CHOLERIC</b>
People/relationships-oriented	Work/task-focused
Witty, easy-going	Decisive, organised
<b>Leading</b>	<b>Leading</b>
Artistic, emotional	Unemotional, strong-willed
People/relationships-oriented	Work/task-focused
<b>Outgoing, optimistic, outspoken</b>	<b>Outgoing, optimistic, outspoken</b>

**Natural blends:** introverted, pessimistic, soft-spoken

<b>PEACEFUL PHLEGMATIC</b>	<b>PERFECT MELANCHOLY</b>
People/relationships-oriented	Work-task/focused
Not goal-oriented	Goal-oriented
<b>Analysing</b>	<b>Analysing</b>
Unemotional, strong-willed	Artistic, emotional
<b>Introverted, pessimistic, soft-spoken</b>	<b>Introverted, pessimistic, soft-spoken</b>

**Additional blends:** people/relationships-oriented

<b>POPULAR SANGUINE</b>	<b>PEACEFUL PHLEGMATIC</b>
Outgoing, optimistic, outspoken	Introverted, pessimistic, soft-spoken
Leading	Not goal-oriented
Witty, easy-going	Analysing
Artistic, emotional	Unemotional, strong-willed
<b>People/relationships-oriented</b>	<b>People/relationships-oriented</b>

**Additional blends:** work/task-focused

<b>POWERFUL CHOLERIC</b>	<b>PERFECT MELANCHOLY</b>
Outgoing, optimistic, outspoken	Introverted, pessimistic, soft-spoken
Leading	Goal-oriented
Decisive, organised	Analysing
Unemotional, strong-willed	Artistic, emotional
<b>Work/task-focused</b>	<b>Work/task-focused</b>

"**The personality blend** is someone upbeat and energetic, combining the fun-loving, charming nature of the Popular Sanguine and the drive of the Powerful Choleric. The Popular Sanguine's side tones down the intensity of the Powerful Choleric side. The Popular Sanguine's wit reduces the extremely dominant need for power and fear that the world will collapse if everything is not finished today. The vitality of the Powerful Choleric will drive on Popular Sanguine to complete what he/she has started."

**Littauer F./Littauer M., (2000.), *Osobnost slagalica: razumijevanje ljudi s kojima radite*, Varaždin, Katarina Zrinski, page 98-99.**

Understanding personalities is a result of getting knowledge about one's own personality and the personality of other people and categorizing them into one of the following groups:

Basic Sanguine	Basic Choleric	Basic Melancholy	Basic Phlegmatic
Sanguine/Choleric	Choleric/Sanguine	Melancholy/Sanguine	Phlegmatic/Sanguine
Sanguine/Melancholy	Choleric/Melancholy	Melancholy/Choleric	Phlegmatic/Choleric
Sanguine/Phlegmatic	Choleric/Phlegmatic	Melancholy/Phlegmatic	Phlegmatic/Melancholy

### 3.5. Important / Exceptions

The ability to recognize personality types allows the adviser to better understand his client; it helps him to easily adjust and make his choice of communication, key information and the way of presenting them, which shortens the process of successful counselling.

### 3.6. Tips from professionals

If you want to be able to recognize and understand other's personality, you should know your own.

[Personality plus test](#)

### 3.7. Additional reading

If you want to understand the People you work with, read redommended book, please.

The Authors describe the different characteristics of the four basic personality types and their combinations.

**Littauer F./Littauer M.(2000.), *Osobnost slagalica: razumijevanje ljudi s kojima radite*, Varaždin, Katarina Zrinski**

**Littauer F./Littauer M.(1992.), *Personality Puzzle: Understanding the People You Work with*, Ada,Fleming H. Revell Company**

### 3.8. Quiz and Exercise

#### Questions:

**1. Personality is a:**

- a) system of values of an individual
- b) human trait of communication
- c) combination of characteristics that make an individual different from others
- d) characteristic of adults

**2. What trait is not an integral part of personality?**

- a) temper
- b) intuition
- c) behaviour patterns
- d) physical appearance

**3. What of following is one of the four basic personality types?**

- a) psychotic
- b) malicholy
- c) lethargic
- d) sanguine

**4. The ability to recognize the personality type doesn't help the advisor for:**

- a) better understanding the client
- b) determining the financial situation of the client
- c) better choice of adjustment
- d) easier choice of communication style

**5. Which of the following is not a characteristic of popular sanguine:**

- a) cheerful
- b) stable
- c) witty
- d) exited

**6. Which of the following is not a characteristic of powerful choleric:**

- a) impartial
- b) impatient
- c) dominant
- d) effective

**7. Which of the following is not a characteristic of perfect melancholy:**

- a) unpredictable
- b) stable
- c) self-critical
- d) perfectionist

**8. Which of the following is not a characteristic of peaceful phlegmatic:**

- a) kind
- b) calm

- c) decisive
- d) relax

**9. What personality is described best with the word „colourful“?**

- a) melancholy
- b) choleric
- c) sanguine
- d) phlegmatic

**10. What personality is described best with the word „challenge“?**

- a) melancholy
- b) choleric
- c) sanguine
- d) phlegmatic

**11. Which of the two following personalities have common characteristics: introverted, pessimistic, soft-spoken; analysing:**

- a) melancholy and phlegmatic
- b) choleric and melancholy
- c) phlegmatic and sanguine
- d) choleric and phlegmatic

**12. Which of the two following personalities have common characteristics: outgoing, optimistic, outspoken?**

- a) melancholy and phlegmatic
- b) choleric and melancholy
- c) phlegmatic and sanguine
- d) choleric and sanguine

### **Exercise 3:**

**Choose four people (co-workers/friends/family members).**

**Define each person with 3-5 characteristics which describe this person the best. (Write them down).**

**Let them describe themselves with 3-5 characteristics too. (Write them down).**

**Based on what is written, add to each person his personality or personality blend.**

**Ask them to complete a personality test.**

[Personality plus test](#)

**Compare the test results with your evaluation.**

**Write a report for each person: your 3-5 and their 3-5 characteristics, your evaluation and the test result:**

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**Solution:**

**Rate the answer:**

- a) good
- b) partially good / incomplete
- c) wrong



## **4. NEGOTIATION**

### **4.1. Overview / Theoretical framework**

This Unit is designed to introduce the art of negotiating to the learners. It will familiarise you with the types of negotiation, the characteristics of a successful negotiator and the different psychological profiles of the negotiator.

After acquiring knowledge from this Unit, you will be able to:

- identify the type of negotiation
- identify the psychological profile of the negotiating party.

### **4.2. Introduction**

Negotiation is a communication process intended to reach a beneficial outcome for two or more negotiating parties.

Negotiation is an art that requires knowledge, understanding and practice. Persuading and negotiating are forms of communication. Persuasion is always focused on achieving one's own goals while negotiating is aimed at the best possible outcome for both parties.

The experienced negotiator knows that the outcome will have long-term consequences for the other side.

First of all, the negotiator must clearly define his goals. For the successful negotiations, the negotiator has to determine what exactly makes his position favourable and unfavourable.

The course of the negotiation may also alter if some unexpected factors such as the client's behaviour, new information, time, place or unplanned event occur. Therefore, a successful negotiator must have the ability to adapt and change his approach. At the same time, she or he must be able to keep moving towards the goal.

A foundation for the successful negotiation encompasses a good strategy, knowledge of negotiating techniques and body language, well-prepared topics, materials, atmosphere, early prevention of any anticipated disturbance (phone calls, visitors), as well as predetermined the lowest and the highest goal.

### **4.3. Types of negotiation**

The negotiation type depends on the motive, goal and desired or anticipated length of business co-operation. One negotiating party may try to reach either one-sided or mutual interests, or it can be more or less ready to compromise. According to those criteria, the main negotiation types are as follows:

### **Distributive negotiation – “Win-Lose”**

In a distributive negotiation, one side often adopts an extreme position in an attempt to reach its personal goals, using a combination of pressure and blackmail, while the other side is left with no much options but to agree to less than expected. Such negotiations lead to dissatisfaction in further collaboration and partnerships, which is not sustainable in the long run.

### **Integrative negotiation – “Win-Win”**

In the integrative negotiation double win solution is achieved. Both parties seek to find an arrangement that is in the best interest of all. The negotiators are open to the agreement, they respect opinions of the other side and take into account their mutual interests. This type of negotiations guarantees a long-term collaboration.

**The "Give-Get" principle** is the fundamental principle of good negotiations. It indicates the readiness of both negotiators to give something in order to get something, which results in an equilibrium in receiving/giving.

### **Negotiations with the assistance of a third party**

There are various reasons for bringing a third party in negotiations in some situations:

- one party is not skilful in negotiating and needs the negotiator's help;
- both or more parties need the help of a third party (negotiator) because they differ in their opinions and are not able to reach a satisfactory outcome;
- both sides need the help of a third party (expert, adviser) because they do not have all necessary information.

## **4.4. Psychological Profile of the Negotiator**

The negotiator should always remain truthful to himself. If he changes his personality during the sale, the other party will recognise insincerity and fakery at the end of the negotiations. That is why it is important not to change yourself but instead your negotiation strategy or method.

It is crucial to pay attention to the personality of those who are negotiating at the other end. Identifying their personalities might help in choosing better negotiating strategies (to make a positive impact on another person, to identify motives of the other party, intentionally and unintentionally hidden, to attract more interest to their own goals and to turn the interests of the other party to their advantage, to become a more pleasant interlocutor etc.).

Petar S. (2001) classified negotiators in seven psychological types:

### **Dominant**

Rough, always want to have control, tough personality, jumping fast off the topic, ignoring arguments of the interlocutor, prone to conflict, turning easily from negotiator into persuader.

### **Extroverted**

Superficial approach to negotiation, very similar to the dominant type – they replace roughness with speed, charm and seemingly irrelevant details, and egoism with general phrases about the common interests.

### **Introverted**

Reluctant to confide in others, have a tendency to control, suspicious, they do not like and avoid negotiations and expect full achievement of their goals. A lot of patience is required in dealing with them.

### **Disingenuous**

Pleasant, polite, nice, look like unskilled negotiators who would agree on all the conditions, just to bring an unpleasant situation to an end. If negotiations continue for a long time, they are extremely dangerous because they are able to turn the interlocutor into a subordinate party.

### **Actors**

Glamorous, with impressive looks, seem to prefer the form of negotiating to its subject, acting as they don't care about the final result, (everything looks good from the outside).

### **Philosophers**

Keen on introducing radical changes into existing negotiating rules. They are similar to the dominant negotiators. Their main feature is unpredictability. They change their opinion and appear as if they do not know what they want, but the reality is different. When negotiating with them, one should have control, clear goals and impose the arguments as a basic prerequisite for negotiation.

### **Guards**

Often conservative, they possess simple philosophy and traditional values. They take the role of the negotiators most deeply and personally. Their goal is to achieve a positive result in negotiations which will benefit both parties. If the other side crosses the limit and misbehave, they might become unpleasant.

## **4.5. Important / Exceptions**

Negotiator must always be true to his personality.

## **4.6. Tips from professionals**

Negotiation is a two-way process for which a successful negotiator should possess the following characteristics:

- to have the ability to adjust quickly;
- to be lenient to a certain level;
- to be open to an exchange of opinions;
- to try to think as the other party;

- to take care of his behaviour (being aware of how the other side perceive him);
- to listen to the interlocutor (not only himself);
- to have a balance between being resolute and relaxed

and to keep on applying the "Win/Win" and "Give/Get" negotiation principles.

#### **4.7. Additional reading**

If you want to know more about negotiation, here is the list of the recommended further reading:

More about negotiation:

Petrić P..Zajednički odvjetnički ured PETRIĆ &KAJIĆ. "*Pregovaranje*" (online). Available on: <https://www.linkedin.com/pulse/strategije-pregovaranja-petar-petri%C4%87> (22.02.2018.)

Basics of successful negotiation:

Petar.S.(2001.) *Pregovarajte s crnim vragom i zadržite bijela krila: Osnove uspješnog pregovaranja*. Rijeka, Andromeda.

Description of essential work within the negotiating process.

Nierenberg G.I.,Amazon. "*The Fundamentals of Negotiating*" (online). Available on: <https://www.amazon.com/Fundamentals-Negotiating-Gerard-I-Nierenberg/dp/0801528682> (20.08.2018.)

## 4.8. Quiz and exercise

### Questions:

1. Which of the following expressions cannot be linked with the term of negotiation?

- a) Win/Lose
- b) Win/Win
- c) Get/Lose
- d) Give/Get

2. What is the fundamental principle of good negotiations?

- a) Win/Lose
- b) Win/Win
- c) Get/Lose
- d) Give/Get

3. Which word is not describing a dominant negotiator?

- a) tough personality
- b) traditional values
- c) rough
- d) always want to have control

4. Which type of negotiators are keen on introducing radical changes into existing negotiating rules?

- a) dominant
- b) extroverted
- c) philosopher
- d) disingenuous

### Exercise 4:

*Ask your co-worker/friend to negotiate with you about buying/selling a vehicle.  
In one role you will be the seller, in another role you will be the buyer.*

*Ask your co-worker/friend to estimate your way of negotiating.*

*Write a report about the time and type of negotiation, and comments of your co-worker / friend: in which part of negotiation you were good and in which part you were bad.*

*Write down: what type of negotiation did you apply as a buyer.*

*Write down: which type of negotiation did you apply as a seller.*

### Solution:

Your answer is good

- if you applied “Win/Win“ type of negotiation as a buyer and as a seller.

Your answer is partially good / incomplete

- if you applied “Win/Win“ type of negotiation at least ones (as a buyer or as a seller).

Your answer is wrong

- if you didn't apply “Win/Win“ negotiation type.

**Rate the answer:**

- a) good
- b) partially good/incomplete
- c) wrong

## **5. NEGOTIATION IN PRACTICE**

### **5.1. Overview / Theoretical framework**

This Unit is designed to introduce the negotiation techniques and their main features.

After acquiring knowledge from this Unit, you will be familiar with essential negotiation in practice.

### **5.2. Introduction**

The preparation and negotiation techniques play a very important role in the complex negotiation process. Regardless of whether it is an independent negotiator in two-way communication or it is a third party involved in the negotiation process, it is essential to use the negotiation techniques. In practice, negotiation can take place on the street, on the bus or at any other place, but that will certainly not be the case in a business negotiation involving complex structural elements.

### **5.3. Steps in negotiation process**

#### Preparation, goals and facts:

The negotiator needs to know exactly what he or she wants. In accordance with his wishes and needs, he should set the highest and lowest goal and stick to them. This helps in preparing the strategy that would keep him within the given framework during the negotiations. It is advisable to set a higher goal in order to make compromises. The negotiator should know what the other party wants so that he would be able to mutually compromise within the given frames. If the negotiations reach the lowest point and the negotiator is forced to compromise further, he must say "no" and give up.

### **5.4. Negotiation techniques**

The conditions for a high-quality and unobstructed negotiation are ensured by implementing the negotiating techniques.

#### **The space for negotiation**

##### Psychic space

A reasonable space between the negotiator and the interlocutor should secure a decent distance. Getting too close can create an unpleasant feeling with the interlocutors.

##### Physical space

Negotiation indoors requires a neat, clean and warm space. The room should not be transitory. If it is too small, it can create a sense of anxiety and discomfort, and if it is too big, it can create a sense of distance (disconnection) in the interlocutors.

### **“Reading” the interlocutor**

“Reading »the interlocutor implies: searching for the real meaning behind the words spoken, active listening and observing the body language.

### **Conversation control**

Voice Control: Behaviour of the other party in the negotiations will affect the voice of the negotiator. The voice reveals real emotions (uneasiness, fear, indecision, premature joy etc.). One should listen to their own voice and try to control it. Thoughts and voice should stay in harmony.

Proper use of the voice leads to more successful negotiations.

Speech Control: Speech needs to be understandable and appealing. It is important to stress/emphasize the key words. The vocabulary should also be adjusted to the interlocutor. It is better to avoid redundant words from speech and take into account the dynamics (speech speed and pauses).

### **Notes and conclusions**

In most cases, it is necessary to keep notes while negotiating instead of trying to recall the details later. Compared to the speed of speech and thoughts, the notes are slower. That is why both negotiating parties should check them from time to time. The written conclusions made during the conversation confirm the safety of the facts agreed.

The written word is a good tool for attracting attention and creating "the thinking image" of the interlocutor.

### **Neutrality**

As agreements in the negotiations are progressively established, they must be confirmed by neutral remarks ("This is good. ", " We will come back to this later" etc.). The conversation should be focused on the terms and conditions of the negotiation.

### **Variability**

Everything is variable, including the interlocutor's fixed condition. The negotiator should neither give up nor immediately accept the new condition. Instead, he can buy time by writing notes, phoning, delaying. This time can be used for coming up with new elements, preparing to ask additional questions etc.

### **Preparation of conclusion**

A largest part and the final phase of the negotiations is the preparation of a conclusion. If both parties met their interests, the negotiation was successful and is likely to repeat in future. The



conclusion point will be reached only if both parties benefited from the negotiation.

### **5.5. Developing trust**

If the negotiator feels important, relaxed and satisfied, if he is convinced that he is trustworthy, competent, well-organised and efficient, he will also be able to convince the interlocutor.

The negotiator must not be mysterious, should not leave the interlocutor in suspense, create tension, discomfort, anxiety, addiction, fear, stress, and must not encourage aggressiveness.

A good negotiator is familiar with different psychological types, so he attends negotiations relaxed, free of all other thoughts or prejudices, he knows the subject of negotiation inside-out, he is well-prepared and knows the facts, he is skilful in expressing his opinion, successfully recognises the opinion of the interlocutor and thereby successfully concludes the negotiation. A successful negotiator does not leave leadership to the other side and is highly confident.

Negotiation is a complex process in which knowing the interlocutor's personality, preparation, communication and negotiation techniques are of equal importance.

The negotiator's behaviour must be acceptable to the interlocutor.

*"Two factors can help to create the right communication:*

- projection - the way you approach others, or more precisely, the trust, credibility and influence that you "pass" on to others,*
- understanding – the ability to understand the opinion of the interlocutor so that he can also see that you are trying to understand them."*

Source:

Petar S. (2001) *Pregovarajte s crnim vragom i zadržite bijela krila: Osnove uspješnog pregovaranja*. Rijeka, Andromeda.

### **5.6. Important / Exceptions**

One should not underestimate the complexity of negotiating. It is a very broad topic that is not fully covered in this Unit.

There are a lot of tactical methods: psychological attack, the impute of possibly misleading information, high demands, misrepresentation of the main goal, fictitious negotiations, changing subjects, pressure and many others.

There are some critical moments that occur in the negotiation process: threats and blackmail, lack of interlocutors' interest, deadlocks, limited time etc.

Negotiation is the trading of concessions.

## 5.7. Tips from professionals

Set clear goals.

When negotiating, promise only what you can do.

Fully commit yourself to the interlocutor.

While communicating, look the interlocutor in the eye.

Speech needs to be clear, short and understandable.

Listen to the interlocutor patiently.

Avoid interrupting the interlocutor while he speaks.

Observe the body language.

Concentrate.

Be flexible, ready to adjust, and keep in mind your lowest goal.

Analyse the situation from the perspective of the interlocutor.

Pay attention to areas of common interest.

Control your emotions.

Do not underestimate the interlocutor.

Avoid conflicts.

Carefully state the disagreement.

Compromise progressively.

Be open, but not without defence.

Stand up for your goals.

Be professional.

Your face and your voice are your main tools.

Negotiation is based on **communication**.

Apply active listening skills in the negotiation process (see Units 8.1. and 8.2.).

## 5.8. Additional reading

From the books in additional reading you can learn more about negotiation skills and negotiation practice.

Essential understanding of the negotiation process for beginners:

Haydock R.S., Amazon. *“Negotiation Practice”* (online). Available on: <https://www.amazon.com/Negotiation-Practice-Roger-S-Haydock/dp/0471894877> (20.08.2018.)

More about negotiation skills:

Kelchner L., Chron. “*Top Ten Effective Negotiation Skills*” (online). Available on: <https://smallbusiness.chron.com/top-ten-effective-negotiation-skills-31534.html> (20.08.2018.)

Basics of negotiation:

Lewicki R.J., Sounders D.M., Barry B. (2009), *Pregovaranje*, Zagreb, Mate

Lewicki R.J., Sounders D.M., Barry B., Amazon. “*Negotiation*” (online). Available on: <https://www.amazon.com/Negotiation-Lewicki-Abramowitz-Memorial-Professor/dp/0078029449> (20.08.2018.)

## 5.9. Quiz and Exercise

### 8.5. Negotiation in practice

#### Questions:

1. *Describe a good physical space for negotiation.*

- a) the room should not be transitory
- b) the room should be very big
- c) the room should be small and intimate
- d) the room should be connected with the kitchen

2. *Why is voice control important?*

- a) it helps on concentration
- b) it is easier to write notes
- c) communication proceeds faster
- d) it reveals real emotions

3. *Which of the following answers is not correct.*

Speech control is important and:

- a) speech needs to be understandable and appealing
- b) speech needs to be comprehensive and detailed
- c) keywords need to be emphasized
- d) the vocabulary should be adjusted to the interlocutor

4. *Why are notes important?*

- a) it calms down a dominant negotiator
- b) it slows down communication
- c) it confirms the safety of the agreed facts
- d) it emphasizes the advisor's authority

#### Exercise 5:

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You are arranging long-term job with a new customer. Prepare yourself for negotiation in your office.

Write a report: Which preparations you will make?

#### Solution:

Your answer is good:

- if you specified all 4 answers.

Your answer is partially good / incomplete

- if you specified 2 from 4 answers, or
- if you specified all 4 answers in part.

Your answer is wrong  
if you specified less than 2 answers.

**Rate the answer:**

- a) good
- b) partially good / incomplete
- c) wrong

## 6. BASIC NEGOTIATION STRATEGIES

### 6.1. Overview / Theoretical framework

This Unit is designed to introduce the negotiation strategies, their positive and negative sides. It will familiarise you with the importance of additional negotiation power.

After acquiring knowledge from this Unit, you will be able to recognize different negotiation strategies.

### 6.2. Introduction

The choice of negotiation strategy depends on the motive, subject and goal to be achieved, and the negotiation strategy depends on the mode of action.

### 6.3. Types of negotiation strategies

There are two types of negotiation strategies: spontaneous and organised.

**Spontaneous** negotiation consists of a series of common, everyday images, which are applied when there are no technological sequences, tactics and methods; it looks “sloppy” and is unsuccessful most of the time. Although an everyday activity, negotiation is far from being simple.

**Organised negotiation** calls for planning, preparation, reflection during a discussion, control, correction, and constant focus on the goal.

Tudor G. (1992) points out the additional negotiating power (everything that the negotiator does in order to strengthen his position), and states seven main sources of additional negotiating power:

- having knowledge (about the real negotiating situation);
- not to become entirely dependent on a single partner;
- not to show the importance of an agreement;
- not to show dependency on the partner;
- lowering the acceptable compromise point to the lowest value (when the point we consider to be the lower threshold is deliberately lowered, a greater internal reserve is gained, which increases negotiating power);
- determining an additional alternative solution;
- increasing the time reserve.

*"The additional negotiating power manifests itself in a fruitful manner: you become stronger in appearance, more ready to combine, more convincing in discussion and more respectable as an opponent. All this may be enough to hope for a better result."*

Source:

Tudor G. (1992). *Kompletan pregovarač: umijeće poslovnog pregovaranja*. Zagreb. MEP Consult. str.17.

To achieve a successful negotiation that ensures a quality agreement, a rational use of time, energy and resources, as well as a contribution to good interpersonal relationships, the negotiator will apply the best negotiating strategy: the principled negotiation.

**Principled** negotiation results in a quality agreement that meets the needs of both negotiating parties; it consumes time rationally and is characterised by good interpersonal relationships. Negotiator successfully accepts unplanned mutual solutions and enables long-term business relationship.

**Hard** negotiation benefits only one side. The hard negotiator must be somewhat toned down. The positive side of the hard negotiation is that the lowest set goal is protected. This negotiation is also used for terminating the relationship.

**Soft** negotiation retains good interpersonal as well as long-term business relationships, but most of the time delivers an agreement of the value that does not fully meet the demands of either party. The positive side of the soft negotiation works well in the known and stable situation, which is part of an old business relationship or when the compromise is less important than the lasting relationship.

**Positional** negotiation brings a one-sided solution and one-sided benefit, while limiting creativity. In the positional style of negotiation some important negotiating steps are skipped, demands are prematurely claimed and a position is retained. Then the arguing starts, followed by disputes, potential backdown and a bad compromise. The positional negotiator defends not only his interest but his demand as well. The positive side is that it provides the opportunity for an extremely tactical action.

**Fictitious** negotiation results in an agreement that is not meant to be achieved or implemented at all. The real goal of the negotiation is hidden. On the outside it does not differ from any other negotiations. The signals are: delaying the start of the meeting, unproductive action, absence of concrete compromise solutions, no suggestion is good enough, it is never the right moment, dissociation from the powers, unclear and imprecise conditions in the proposal of the written agreement.

Regardless of what strategy the negotiator chose, it is essential to check the competence of the negotiating team at the very beginning of the negotiations; the negotiation time and the agenda should be limited; the agreement should be written in short and clear sentences and the implementation of obligations should be ensured.

#### **6.4. Important / Exceptions**

Regardless of the choice of negotiation strategies, the following must be checked: the competences of the negotiation team, the time limitations of negotiating and the agenda.

## 6.5. Tips from professionals

### How to avoid hard negotiation?

- repress excessive self-confidence of the interlocutor on time;
- shock the interlocutor by announcing an extreme request, not letting him to do it first;
- keep self-control and control of the interlocutor;
- promptly alert the interlocutor that the hard competition is not an option.

### How to avoid soft negotiation?

- defend one's own interests from the very beginning of negotiations;
- not to accept the offer, but demand more;
- not to offer compromise at the first deadlock;
- not to discover the lowest goal, but demand more than needed;
- maintain a professional and not a friendly relationship;
- not to insist on the deal, but let the other party relent first.

### How to avoid positional negotiation?

- make clear immediately that only one solution would not be enough;
- prohibit a quick final solution making until mutual safety is checked, as well as some other, possibly better options;
- determine the time limit with the sentence: "The first demand must not be presented for another half an hour. Until then, about the situation, the interests...";
- ignore the premature request.

### How to avoid fictitious positional negotiation?

- occasionally make sure whether the interlocutor wants to make a deal and intend to implement it;
- check the information;
- insist on the accuracy of the work and negotiations;
- offer further talks on the principles of principled negotiation.

## 6.6. Additional reading

If you want to learn more about negotiation strategies and successful negotiation, see the list of recommended books.

Practical Book about negotiation strategies, techniques and tactics.

Tudor G. (1992). *Kompletan pregovarač: umijeće poslovnog pregovaranja*. Zagreb. MEP Consult.

The Author describes basics of successful negotiation, process management in negotiation, negotiation situations and types of negotiators.

Petar S. (2001). *Pregovarajte s crnim vragom i zadržite bijela krila: Osnove uspješnog pregovaranja*. Rijeka, Andromeda.

Different books about negotiation skills, principals, unpredictable situations and different examples:



Dheeraj V. WallStreet Mojo. “*10 Top Best Negotiation Books of All Time*”(online). Available on: <https://www.wallstreetmojo.com/top-best-negotiation-books/> (24.02.2018.)

The Author explains the importance of planning, dynamics and strategies, how to understand the psychology, tactics and behaviours of negotiation, and how to conduct successful win-win negotiations.

Gates S.,Amazon. “*The Negotiation Book: Your Definitive Guide to Successful Negotiating*”(online). Available on: <https://www.amazon.com/Negotiation-Book-Definitive-Successful-Negotiating/dp/1119155460> (20.08.2018.)

## 6.7. Quiz and Exercise

### Questions:

1. Which of the following answers is not a negotiation strategy?

- a) alternative
- b) principled
- c) fictitious
- d) positional

2. How to avoid soft negotiation?

- a) immediately offer concessions
- b) reveal the lowest goal
- c) insist on making an agreement
- d) not to accept the offer, but demand more

3. How to avoid positional negotiation?

- a) extend the time of negotiation process
- b) ignore premature request
- c) insist only on one solution
- d) insist on work precision

### Exercise 6:

Ask your co-worker to act as a client and negotiate with him or her about the price of your accounting services. She or he will have high expectations, big requests, asking for benefits etc. (hard negotiator).

Write a report and describe: which strategy did you use, what did you accomplish:

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### Solution:

If you applied elements of avoiding hard negotiation:

- repress excessive self-confidence of the interlocutor on time
- shock the interlocutor by announcing an extreme request, not letting him to do it first
- keep self-control and control of the interlocutor
- promptly alert the interlocutor that the hard competition is not an option

and accomplished at least minimum of your expectation, then your result is good.

If you applied 50% mentioned elements of avoiding hard negotiation your result is partially good / incomplete.

If you didn't apply elements of avoiding hard negotiation or if you applied less than 50% mentioned elements and if you didn't accomplish at least minimum of your expectation, they your answer is wrong.

**Rate the answer:**

- a) good
- b) partially good /incomplete
- c) wrong

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## **Module 9: Basics of Blended Learning**

### **Summary**

The module is intended for mentors who are not familiar with blended learning. You will get to know the technological and pedagogical aspects of distance learning and practical aspects of the implementation of blended learning.

After the successful completion of this module, the participants will be familiar with different types of companies, their characteristics, the procedures for setting up a particular type of business, and the related costs. They will acquire all the necessary know-how to conduct the necessary procedures in less demanding business forms themselves.

### **Glossary**

**E-learning** is an education that is conducted through electronic media (most often the Internet and the World Wide Web) and can be carried out within the frame of conventional education, in blended learning or distance education.

**Distance learning** or **distance education** is a form of education during which a student and a teacher are separated in space, potentially also in time, and which is conducted with the help of information and communication technologies.

**E-materials** are multimedia learning materials that are accessible via the Internet (most often via the World Wide Web or mobile devices).

**Virtual Learning Environment (VLE)** is a learning environment that allows you to carry out learning activities, while enabling access to study materials, informing, signing up for exams, socializing of students. For the distribution of learning content and the implementation of organized e-learning, a platform for e-learning or a Virtual Learning Environment is needed. The prevailing learning technology that enables the organization and implementation of e-learning is the Learning Management System (LMS). LMS enables the organization and execution of courses, including their splitting up into modules and lessons; conducting knowledge tests; discussions ... LMS systems are usually not the only software used, as many services and platforms are available on the World Wide Web that enable education and training or individual activities within the educational process. The Virtual Learning Environment therefore consists of an LMS system, various applications, as well as other services and platforms that are accessible over the Internet as a cloud service.

## 9 TECHNOLOGICAL ASPECTS OF DISTANCE LEARNING

### Introduction

In order to implement modern ICT-enabled distance learning, it is necessary to establish an appropriate virtual learning environment, a learning platform comprised of a system of applications, including learning content and data, enabling access to open learning resources.

### 9.1 Theoretical framework

Participants enter the virtual learning environment through a web-based educational portal, requiring only a computer with Internet access and a web browser. They do not need to install additional software on their home computers.

LMS (Learning Management System) enables:

- designing and implementing modules in the framework of Distance Learning or Blended Education (e-modules);
- setting up e-classrooms for individual modules;
- development and publication of online learning content of individual e-modules;
- personalized access to learning resources and data;
- monitoring of the implementation of e-subjects;
- monitoring students' learning achievements;
- learning;
- knowledge examination;
- communication and cooperation through forums;
- e-library with recommended additional sources of information;
- administration, management and control;
- informing students;
- evaluation of education.

### 9.2 Important / Exceptions

Within the framework of the "FDI advisors" project we use the "Moodle" learning platform, available at the following web address: <https://fdi.replika.si/>.

### 9.3 Tips from professionals

The FDI Advisors e-portal allows you to assign rights to individuals and groups of users and perform various roles (teacher, author, mentor, tutor, administrator, student). It is accessed with a password, which enables the assertion of allocated rights and access to those resources



that individual users need. Individualization of the learning environment enables individuals to protect their own personal information, while the provider can protect the data used and the copyrights.

During the implementation of the blended learning process, you will need to focus on the activities underlined above, as the rest have already been completed or are implemented by participants or the portal administrator.

#### **9.4 Additional information**

Additional information about Moodle are available at: <https://moodle.com/> (20<sup>th</sup> October 2018)

## 9.5 Questions and Exercises

### Questions

1. Do participants in blended learning need a special application on their smartphones?
  - a) No, they can learn via a computer without additional software.
  - b) No, but learning is also possible through the application on the phone.
  - c) Yes, the only access to Moodle e-classrooms is via smartphones.
  - d) Yes, learning through smartphones is more effective.
  
2. Which of the following is usually not enabled by e-learning platforms?
  - a) Monitoring students' learning achievements
  - b) Learning
  - c) Oral examination of knowledge
  - d) Knowledge testing

### Exercise

In the e-classroom, create a new conversation (forum) titled: Module 9 - Exercise 1 - your username.

Take a photo and delete the forum.

Your answer: (attach a photo)

Enter correct answer:

(Photo of the new forum.)

Please rate your answer:

- Correct
- Partially correct / incomplete
- Incorrect

## **10 PEDAGOGICAL ASPECTS OF DISTANCE LEARNING**

### **Introduction**

Establishing a virtual learning environment is undoubtedly a necessary condition for the implementation of distance learning. Einstein once said: "I never teach my students. I am only trying to establish a learning environment that provides the conditions in which they can learn." However, in modern didactics, we are no longer satisfied with the learning environment alone. It is also necessary to establish a pedagogical model of the implementation of education or training.

Rapid development of ICT and research in the field of learning also brings about changes in education and training. We are talking about learner-centered design or learner-centered education. Teaching methods are changing. Students are provided with modern learning resources that enable new and more effective learning methods.

In the following, we will present theories of learning that form the basis of modern distance learning, as well as the basic concepts of online learning materials intended for participants in training for advisors to foreign direct investors.

### **10.1 Theoretical framework**

Depending on the technology used and the place where it is carried out, the training or education is divided into:

- Conventional face-to-face learning;
- Blended learning;
- E-learning.

In this way, we can carry out the entire training program or individual modules or chapters.

Conventional learning is predominantly face-to-face learning. Use of ICT and additional e-learning opportunities, i.e. online learning, which can be made available to learners for self-learning, are improvements and acquisitions that are also enabled in conventional education by technology and the development of didactic methods.

In the following, we will therefore describe blended education as it presents the model on the basis of which we designed the implementation of training for advisors to foreign direct investors.

#### **10.1.1. Blended learning**

Blended learning or hybrid learning is usually defined as a form of learning where we combine conventional learning and distance learning, i.e. e-learning. The concept of blended learning enables participants and mentors to take advantage of the best of both methods - conventional and electronically supported - while allowing the development of new learning strategies.

Blended learning is often referred to as a combination of conventional lessons in school and e-learning from home, from work, libraries, etc. However, this term is also used more widely to indicate the most diverse combinations in the process of teaching and learning (Singh, 2003):

from conventional classroom-based learning to independent e-learning,  
from synchronous learning to asynchronous learning,  
from independent learning to collaborative learning,  
from structured learning to free learning (i.e., from linear to non-linear learning),  
from learning the theory to its implementation in practice.

Horton (2000) gives the following division of courses or subjects carried out by using ICT:

- from instructed-led, facilitated to self-paced, self-directed,
- from synchronous (mentor and participant are simultaneously involved in the process) to asynchronous (mentor and participant are involved in the process with a time delay).

However, these classifications do not mean that it is possible to choose only two extreme options. There is an entire range of options in between. A combined e-course can change the form from guided education to self-learning, and these alternatives can also be exchanged.

E-learning is usually carried out asynchronously, because technology enables a quality learning process, wherein it is not necessary that the mentor and the participant are always coordinated in time. Nevertheless, certain activities are performed synchronously – e.g. real-time discussions, teleconferencing, video conferencing. Certain forms of counselling, consultation, knowledge testing and collaborative learning are implemented in this way.

#### **10.1.1.1. Guided e-training**

Guided training means that the mentor directs the learning process.

In e-training, basic learning materials are available for each module, i.e. e-materials through which the participant acquires the basic knowledge of the subject. Learning Process Management or the learning course management requires the mentor to perform the following tasks before or during the implementation of the module (Horton, 2000; Horton, 2011):

1. Planning
  - creating a curriculum and setting up learning objectives,
  - elaboration of a work timetable defining the requirements and activities and deadlines for their completion,
  - defining the rules of conduct,
  - publication of learning objectives and expectations (required knowledge, acquired competencies).
2. Implementation
  - monitoring the work of participants and observing their progress,
  - helping participants progress in the right direction,

promoting communication and cooperation between participants,  
active participation, promotion and management of interactive discussions,  
answering questions and directing learning,  
examining and evaluating participants' products, providing content feedback and  
recommendations related to learning activities or received products,  
evaluating the work of the participants.

The purpose of the facilitation of the scaffolding is to help participants allocate learning appropriately and increase the effectiveness of learning. Research shows that the students' learning outcomes depend on their self-regulatory processes, such as goal setting, self-examination, self-evaluation, use of strategies, planning and time management, search for help and social negotiations (Zimmerman and Schunk, 2001). Dabbagh and Kitsantas (2005) have proven that with various tools of the learning platform (LMS system) we can support these processes. In any case, the technology only provides a suitable environment. Support for learners is more efficient if the course implementation is appropriately conducted or directed by the mentor.

In the framework of conducting training of advisors to foreign direct investors, e-learning of subjects will be managed. We will use a combination of conventional learning in the form of lectures or workshops aimed at:

- getting to know the basic concepts of the modules,
  - learning about e-learning materials,
  - becoming familiar with examples from practice,
  - motivating the participants,
  - discussion of the key content of the modules;
- and independent long-distance e-learning.

#### **10.1.1.2. Blended learning course for FDI advisors**

The module usually starts with a meeting in the classroom where participants get to know the mentor and the basic concepts of the modules. Work is then continued through the learning platform. If needed further classroom meetings can be organized (depending on the requirements of each module), however the assessment of knowledge is carried out via the e-platform.

Horton (2000) proposes that the schedule of learning activities be made on a weekly basis. We plan the activities for the entire implementation of the training. Synchronous activities, i.e. meetings in real time (in a lecture room, in the form of teleconferencing or videoconferencing, in a chat room), are defined for each week, as well as the learning materials to be studied and the activities to be performed (tests, tasks) by the participant. All of the proposed activities have defined implementation deadlines. This serves primarily to motivate and support participants in order to achieve better learning outcomes and reduce the risk of participant drop-out.

Promoting communication and collaborative learning is also a very important component of the guided implementation of the subject. The foundations of this lie in the constructivist learning theories presented in the continuation.

### **10.1.2. Constructivist theories of learning**

The design and implementation of e-learning should be based on the theoretical starting points of learning theories rather than on existing practice (Dalsgaard, 2002). Many researchers recommend the observation of constructivist and socio-constructivist learning theories (Squires & Preeces, 1999; Ardito et al., 2005).

Constructivist learning theories and methods of teaching are based on assumptions about the manner of human learning. They are based on the premise that an individual does not accept knowledge from the outside, but constructs it by him-/herself, through his/her own activity and through the process of giving meaning to his/her own experience (Marentič Požarnik, 2000).

Psychologists Jean Piaget (1896-1980) and Lev Vygotsky (1896-1934) laid the foundations of the theory of constructivism in the field of learning and teaching. The difference between their approaches is mainly that Piaget's work was to a greater extent based on the processes by which an individual constructs knowledge of the world on the basis of his/her own experience. Vygotsky is the founder of the so-called social constructivism, since he emphasizes the role and significance of social interaction, i.e., dialogue in the building of knowledge and understanding (Marentič Požarnik, 2000).

With the development of ICT, constructivism has become an important framework of educational theory and the discourse of pedagogical practice.

Development psychologist Jean Piaget is one of the most important cognitive development theorists. Piaget argues that an individual constructs new knowledge from his/her own experience through the interconnected processes of organization, accommodation and assimilation (Piaget, 1971). Learning is therefore an active construction of knowledge. Individuals build new knowledge on previously acquired knowledge and experience. Thus, we can conclude that in order to enable successful distance learning, it is important to take into account the knowledge of the individual, to stimulate active learning, and to constantly verify and consolidate knowledge.

Vygotsky and Piaget both emphasize the student's active role in the learning process. While Piaget emphasized self-learning, Vygotsky stated that learning is carried out through social interaction. According to Vygotsky, students develop cognitive abilities by being part of the social environment in which they operate. The students' cognitive development is influenced by teachers and competent peers. With the help of a teacher and peers, a student achieves more than he/she would if he/she solved the problems independently (Vygotsky, 1978). Based on these premises, various learning methods have been developed. In e-learning and long-distance education, collaborative learning is particularly highlighted. An important factor in the student's development is, of course, the teacher whose task is to implement scaffolding. The term scaffolding serves as a metaphor, denoting various assistance to the student aimed to support learning.

Regarding e-learning, especially in connection with the development and implementation of e-materials and e-subjects, we are talking about learner-centered learning and the use of methods through which the learner is directed and lead toward knowledge and competence.

According to these findings, the importance of social software, as well as the importance of cooperation and communication between the mentor and participants in the learning process, is emphasized in the modern ICT-enabled distance learning. Collaborative distance learning in the technological sense is carried out using tools to implement forums, chat rooms, teleconferences, video conferencing, messaging systems, etc. In addition, communication is enabled by wikis, blogs and social software.

### **10.1.3. E-learning materials for distance learning**

E-materials represent a fundamental source of knowledge in e-learning.

We can use different learning materials in distance education. Participants can have access to conventional digitized material, e.g. in PDF format, in virtual learning environments on the website of the school. However, such types of materials have already become obsolete from the point of view of technology and pedagogy. With "two-dimensional" materials, it is not possible to significantly change the methods of teaching and learning, and distance education with old methods of work does not give adequate results. Modern e-materials should not be merely a transposition of traditional materials into an electronic format but should be adapted to the media through which it is being accessed.

Modern technology and average ICT equipment available today enable participants to use multimedia and interactivity. These are technical factors that can influence the increase in comprehensibility and visibility, as well as active learning.

## **10.2 Important / Exceptions**

In the training of advisors to foreign direct investors, we will use all sources of knowledge, including conventional and digitized conventional materials, also adding modern e-materials on the Moodle platform.

E-material is:

- Clear content, written with simple and understandable phrases where the author uses scaffolding.

- Enriched with multimedia add-ons that enhance intelligibility and visibility and enable the adapting to different learning styles.

- Enriched with interactive elements that promote active learning, such as interactive questions, tests, links to other sources, etc.

We have already mentioned that learning is more effective with acquired and refreshed knowledge, and that the participant needs feedback. Therefore, interactive questions for regular knowledge testing are integrated into e-materials, and each e-learning material is completed with a test for knowledge testing.

### **10.3 Tips from professionals**

Within the framework of the FDI advisors' platform, a computer-based collaborative learning environment (forums, communication channels, etc.) has been established. The task of the mentor is, inter alia, the implementation of counselling and the promotion of communication between students as well as collaborative learning.

Encourage discussion in forums!

Regularly monitor the progress of the participants and motivate those who have declined in their learning process!



## 10.4 Questions and tasks

### Questions

1. Depending on the technology used and the place where we conduct education or training, the education or training is divided into:
  - a) Conventional learning in the classroom, blended learning, learning in an e-lecture room;
  - b) Conventional face-to-face learning, learning in libraries, e-learning;
  - c) Conventional face-to-face learning, blended learning, e-learning;
  - d) Classroom learning in the classroom, blended learning, e-learning, group learning.
  
2. Asynchronous learning means that the mentor and the participant are involved in the process with a time delay.
  - a) No
  - b) Yes
  
3. What is not the task of a mentor in guided blended learning?
  - a) monitoring the work of participants and observing their progress
  - b) providing individual instruction
  - c) promoting communication and cooperation between participants
  - d) answering questions and directing learning

### Exercise:

In the course of training of advisors to foreign direct investors, the method of guided e-learning is being recommended. What is the purpose of the introductory conventional lectures?

Enter the answer:

Correct answer:

The purpose of the introductory conventional lectures is:

- getting to know the basic concepts of individual modules,
- learning about e-learning materials,
- getting familiar with examples from practice,
- motivating,
- discussing the key content of the modules.

Please rate your answer:

- Correct
- Partially correct / incomplete
- Incorrect

## **11. IMPLEMENTATION OF BLENDED LEARNING**

### **11.1 Theoretical framework**

A smaller part of the program is carried out face to face (in lecture rooms), while the major part is in the form of e-learning.

#### **11.1.1. Face-to-face meetings in the lecture room**

For most modules, we organize only one face-to-face meeting in the classroom, preferably at the beginning. However, for individual modules, several face-to-face meetings can be set; if it makes sense, several modules can be combined into one meeting.

#### **11.1.2. Pedagogical activities**

Since a participant studies the basic learning material alone, and builds knowledge on a higher level with the help of a mentor, the mentor's work is more creative than in the conventional form.

A mentor plays the most important role in conventional meetings, where he/she must act primarily as a motivator. Other pedagogical work is carried out mainly long-distance, with the help of e-portal and communication tools. Distance learning is often asynchronous.

##### **11.1.2.1. Tasks of the participants**

The participants' workload includes:

organized work, such as lectures, seminars, exercises and other forms of organized study;  
individual study work, such as the study of e-materials, other literature, research work, preparation and performance of tests.

##### **11.1.2.2. Scheduling the modules**

Depending on the scope of modules, plan for work to be carried out is set and defines:

duration of implementation of a particular module in number of days (recommended time from 3 to 14 days, depending on the scope of the module);  
e-materials, i.e. basic study literature, which needs to be studied in a given period;  
all other activities of participants (e.g. processing of e-materials, self-evaluation with knowledge tests, final test) and deadlines for their completion.

##### **11.1.2.3. Module execution**

The execution of the module is carried out in accordance with the foreseen timetable.

The time for the implementation of a module shall be regarded to mean the time determined for organized pedagogical and student work. As a rule, it starts with an introductory lecture, continued with the independent work of participants through the web application, and ending with a test through the application.

Participants only have two tries to pass the test.

Between the beginning (introductory lecture) and the conclusion (test), the following are appropriately distributed:

guided and independent learning from e-materials and other learning resources,  
collaborative learning through a forum or other tools,  
synchronous and asynchronous consultations.

Module execution consists of the following components:

1. Introductory meeting

The introductory meeting in the classroom is intended for the meeting of the mentor and participants, learning about the subject matter, study literature and the work method. The mentor presents an overview of the subject matter and the work schedule, defines the requirements and activities as well as deadlines for completing including activities. It also publishes learning objectives and expectations and defines rules of behaviour and acting in the course.

2. Activities of the participants

Participants study the learning materials and participate in various forms of collaborative learning and communication.

3. Activities of the mentor

The mentor regularly monitors participants' activities, encourages cooperation and communication. In particular, asynchronous communication is foreseen, and if necessary, long-distance synchronous communication is organized at least once a week. The mentor monitors students' work, directs and observes their progress, actively participates, promotes and leads interactive discussions, answers questions, directs the learning, checks students' work, and provides feedback and recommendations related to learning activities or received products. At the end, the mentor evaluates and grades students' work (test).

#### **11.1.2.4 Communication and cooperation**

An important factor in training is communication between mentors and students, as well as communication between students. It is technologically supported through communication and collaboration tools that are integrated into the virtual learning environment of the school.

For asynchronous communication, we use e-mails or messaging system and forums.

For synchronous communication, we use a forum (if it is an agreed, fixed term - e.g., office hours); telephoning over the Internet, and a teleconferencing or videoconferencing system, such as Skype.

With the help of forums, teleconferencing or videoconference systems, a collaborative learning environment is established.

#### **11.1.2.5. E-classroom**

Modules are carried out in special virtual spaces called the e-classrooms, where everything that is necessary for learning is available to a student:

- learning content,
- communication and cooperation tools,
- exercises and tests;
- various reports on the activities carried out, etc.

The communication and collaboration tools are directly accessible through the e-classroom.

### **11.2. Important / Exceptions**

At the first conventional meeting, participants are first trained in e-learning. Training involves learning about virtual learning environment, i.e. the educational portal and its functions, the importance and purpose of the communication and cooperation tools, the manner of implementing modules, the way of learning from online learning resources, etc.

### **11.3. Tips from professionals**

With the help of forums, teleconferencing or videoconference systems, a collaborative learning environment shall be enabled. Use them as often as possible, as in most cases they represent one of the strongest motivating factors for stimulating the participants.

## 11.4. Questions and exercises

Questions:

1. How many conventional lectures are recommended for the training of advisors to foreign direct investors?
  - a) Four
  - b) Three
  - c) Two
  - d) One
  
2. What is the most important role of a mentor in the process of training advisors to foreign direct investors?
  - a) Correct presentation of teaching materials at conventional meetings
  - b) Motivation of participants in conventional meetings
  - c) Quick answers to questions from participants
  - d) Accuracy

Exercise:

How would you implement Module 1 for potential FDI advisors?

Enter the answer:

Correct answer:

The course of Module 1 execution consists of the following components:

1. Introductory meeting

The introductory meeting in the classroom is intended for the meeting of the mentor and participants, learning about the subject matter, study literature and the work method. The mentor presents an overview of the subject matter and the work schedule, defines the requirements and activities as well as deadlines for completing including activities. It also publishes learning objectives and expectations and defines rules of behaviour and acting in the course.

2. Activities of the participants

Participants study the learning materials and participate in various forms of collaborative learning and communication.

3. Activities of the mentor

The mentor regularly monitors participants' activities, encourages cooperation and communication. In particular, asynchronous communication is foreseen, and if necessary, long-distance synchronous communication is organized at least once a

week. The mentor monitors students' work, directs and observes their progress, actively participates, promotes and leads interactive discussions, answers questions, directs the learning, checks students' work, and provides feedback and recommendations related to learning activities or received products. At the end, the mentor evaluates and grades students' work (test).

Please rate your answer:

- Correct
- Partially correct / incomplete
- Incorrect

# SOLUTIONS

## MODULE 1

1. a) Limited liability company and sole trader
2. b) With all of his assets
3. b) Supplementary sole trader is a natural person who is employed by another Employer, sole trader is a natural person, not employed by another employer.
- 4.a) at least 20.000,00 HRK

### Correct answer:

[Regulation of the flat-rate taxation](#), article 3.paragraph 1, point 5.

hg

1. g) The Trade registry, Register of taxpayers at Ministry of Finance, Retirement and Health insurance system
2. e) One to three days
3. e) all founding contributions are in cash and are paid up prior to the filing of a proposal for registering a company in the court register;
4. f) temporary bank account

### Correct answer:

- Croatian identification/tax number (OIB)
- Personal identification document
- anproof of payment of founding capital
- Information on the founders and representatives of the company, the full name of the company, business address, business activities to be carried out within the company

1. **a)Yes, if it is registered for at least two years in the home country**
2. **c)Notary**
3. **c)The founding capital is not required.**

### Correct answer:

- information on the persons authorized for representation and scope of their powers
- founder's decision on the establishment of the branch
- certified transcript of the statement of establishment in accordance with the legislation of the country where the founder has its registered office (articles of association or statute of the founder)
- founder's certified abridged financial report for the previous year
- information on the bank account of the parent company (name of the bank, the bank account number)
- a copy of the legal representative's passport;
- information on the legal representatives of the parent company
- the tax number of the parent company
- the address of the branch, the branch's business activities (the branch's activities must be the same as the activities of the parent company);
- the name and legal form of the parent company and the name of the branch;

All documentation must be translated on Croatian language and certified by the official court translator.

1.a) **No, because the foreign investor must provide the appropriate business premises and the relevant permits for this activity.**

2.a) **When a foreign investor does not actually need business premises to pursue his business.**

**Correct answer:**

The price is 375,00 HRK – 500,00 HRK per month.

1.c) **Directly from owners or intermediaries**

2.a) **Whole accounting documentation from the accounting service of the previous owner**

3.d) **Non-EU citizens can takeover company with at least 200.000,00 HRK share capital**

**Correct answer:**

Find a Company:

**Advertisement**

or

**Court register:**

- Check Company's seller.
- Check for the information that the Company is clear of all debts. Ask for Official statement from the Croatian Ministry of Finance – debt position of the taxpayer.
- Check the documentation of the company's previous business operations and existing business (financial reports from past years and all documentation in accountant service).
- Check the background of the company: If foreign investor also wants to buy an existing business with the company, you should check what business they operated, why it is not profitable, what competition they had on the Croatian market and the country's legislation, among other things.
- Check the company's previous owners and business results on the Court register (SUDREG), where annual reports and ownership, as well as some other information of the company are published.

## **MODULE 2**

1.a) **PDV report (Value added tax) and JOPPD forms**

2.a) **Annual reports**

**Correct answer:**

The Accounting Act – article 19.

1.b) **General rate of 25%, reduced rate of 5% and 13%**

2.d) **Entity, whose amount of taxable turnover in the last year exceeds 300 thousand HRK**



3.a) **12% and 18%**

4.a) **In case that with respect to the standardised expenditure his/her Taxable Income from Business Operations has not exceeded 300.000,00, he is performing business activity stipulated by Flat-rate tax Regulations and when registering into taxpayers' registry has reported flat-rate taxation model.**

5.c) **Income from money market instruments and portable securities**

6.c) **edible oils, books, academic journals, seeds and seedlings**

**Correct answer:**

No. Croatia and Uruguay has no valid Agreement on Avoidance of Double Taxation with Croatia.

1.d) **Natural person without permanent or temporary residence in Croatia, without earning in Croatia**

2.b) **Yes, if the Form is signed by company legal representative**

**Correct answer:**

P-PDV form should be downloaded from Ministry of Finance RH official web page – Tax Department.

([https://www.porezna-](https://www.porezna-uprava.hr/HR_obraSCI/Stranice/default.aspx?RootFolder=%2FHR%5FobraSCI%2FDocuments%2FPOREZ%20NA%20DODANU%20VRIJEDNOST&FolderCTID=0x01200082AADAB3E9B1B84EB3D3A7BC7DDC825400C74F17A6F842C94B8986BEB33A1EE2EC&View={2AA7CC9D-9CD2-4433-AE18-D051E7E082F8})

[uprava.hr/HR\\_obraSCI/Stranice/default.aspx?RootFolder=%2FHR%5FobraSCI%2FDocuments%2FPOREZ%20NA%20DODANU%20VRIJEDNOST&FolderCTID=0x01200082AADAB3E9B1B84EB3D3A7BC7DDC825400C74F17A6F842C94B8986BEB33A1EE2EC&View={2AA7CC9D-9CD2-4433-AE18-D051E7E082F8}](https://www.porezna-uprava.hr/HR_obraSCI/Stranice/default.aspx?RootFolder=%2FHR%5FobraSCI%2FDocuments%2FPOREZ%20NA%20DODANU%20VRIJEDNOST&FolderCTID=0x01200082AADAB3E9B1B84EB3D3A7BC7DDC825400C74F17A6F842C94B8986BEB33A1EE2EC&View={2AA7CC9D-9CD2-4433-AE18-D051E7E082F8})). and fulfil.

Control of fulfilled form by competent person (mentor, bookkeeping, Tax Department office) is suggested.

1.b) **Monthly**

2.b) **8.020,00 HRK**

3.c) **Gross salary and social contributions on gross salary**

**Correct answer:**

This is approximately calculation.

Cost type	Cost amount [HRK]
Accounting	1.400,00
Bank account	100,00
Business premise (40 m2)	3.000,00
Additional costs (e.g. the Internet, office material, electricity...)	1.400,00
Payroll costs for 2 employees	8.930,00
Total	14.830,00

**1.a) Before business registration**

**Correct answer:**

Travel agency manager – must be full-time employed

Tourist companion – does not have to be employed

Tourist guide who has a licence for providing services in visited tourist destination – does not have to be employed

Conditions which must be fulfilled when establishing and performing travel agencies' business activities:

[http://infos.hok.hr/faq/f\\_tehnicka\\_pitanja/f2\\_organizacija\\_rada/uvjeti\\_za\\_osnivanje\\_i\\_obavljanje\\_djelatnosti\\_putnickih\\_agencija](http://infos.hok.hr/faq/f_tehnicka_pitanja/f2_organizacija_rada/uvjeti_za_osnivanje_i_obavljanje_djelatnosti_putnickih_agencija).

1.d) **valid personal identification document, a tax number obtained in the Republic of Croatia, a tax number from the country where the person is a resident.**

2.b) **Tax cash-register and certified bound book of invoices**

3. b) **Yes, the amount of the paid invoice may not exceed 5.000,00 HRK**

**MODULE 3**

1) **g) Any person who at least 50% of time has a permanent residence or a habitual resident in the Republic of Croatia.**

2) **k) 5%, 13% i 25%**

**Solution:**

On the Internet, please find the Law on Value Added Tax. Application of standard and lower VAT rates are explained in Article 38., as: 5% - lower rate: eg. bread, milk, medicines and medical aids, books and others; 13% - lower rate, eg. accommodation, food preparation, newspapers, magazines, oils, baby food, water, sugar, concert tickets...

Please, follow this link:

[https://www.porezna-uprava.hr/hr\\_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=cla48994](https://www.porezna-uprava.hr/hr_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx#id=cla48994)

1.d) **Presenting**

2.a) **Financial Accounting**

3.d) **Financial transactions**

**Solution:** Accounting Information System (AIS) is a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies. In particular, AIS can support FDI Advisors to ensure the highest level of accuracy in an organisation's financial transactions and recordkeeping and to make financial data easily available to those who need access to it legitimately, all while maintaining statistics and data intact and secure.

1) **c) Money**

2) **b) a small enterprise**

**Solution:**

Several important principles are applied in accounting. The principle of the occurrence of an event is important because balance sheet elements are recognized when a business event occurs, not when cash or cash equivalents are received. These assumptions are the basis for the compilation of all financial statements, other than the cash flow statement.

1. b) **The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements.**

2. c) **An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit.**

**Correct answer:**

Money in cash registry - active  
Finished goods inventory - active  
Suppliers' liabilities - passive  
Business year's profit - passive  
Business establishment – active

1) b) **Patents, licenses, concessions, trademarks and other rights**

2) d) **Inventories, cash and cash equivalents**

**Solution:** On FINA website you can easily free access to the annual financial reports and other documents that entrepreneurs are obliged to submit to FINA for public posting pursuant to Article 30 of the Accounting Act. You can either find any other profit or loss account sheet or use the one from your company.

**Correct answer is:**

I. Operating revenues  
II. Operating expenses  
III. Financial revenue  
IV. Financial expenses  
V. SHARE IN THE PROFITS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS  
VI. SHARE IN THE PROFITS FROM JOINT VENTURES  
VII. SHARE IN THE LOSS FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTERESTS  
VIII. SHARE IN THE LOSS FROM JOINT VENTURES  
IX. TOTAL INCOME  
X. TOTAL EXPENDITURE  
XI. PROFIT OR LOSS BEFORE TAXATION  
XII. PROFIT TAX  
XIII. PROFIT OR LOSS FOR THE PERIOD

1) a) **1, 3, 6**

2) c) **Investments in securities**

**Solution:**

In Croatia, most commonly used is „RRIF accounts chart“, which could be found here: <https://www.rrif.hr/dok/preuzimanje/RRIF-RP2017-XXI.pdf> From the list, you can specify the accounts:

- Investments in Internet sites - 01201,
- Land - 020,
- Equipment - 031,
- Investments in government bonds - 0641,
- Escrow account - 1042,
- Buyers of services from the EU - 1212.

**Solution:**

Assets	
Giro account	
1) 50,000	

OWNERSHIP LIABILITIES	CAPITAL	AND
Equity capital		
	50,000	1)

Assets	
Cash register	
1) 20,000	
Giro account	
	20,000 1)

Assets	
Giro account	
	100,000 1)

OWNERSHIP LIABILITIES	CAPITAL	AND
Equity capital		
1) 100,000		

## MODULE 4

1. c) **CS, ERDF, ESF, EMFF, EAFRD**
2. c) **Ministry of Regional Development and European Union Funds**

### Answer

On the website <https://efondovi.mrrfeu.hr/MISCMS?op=kk&status=Otvoren>, in the upper menu, you can find the "Documents" section. After opening the section, on the link <https://efondovi.mrrfeu.hr/MISCMS/dokumenti>, ESI Funds Operational Programmes 2014.-2020 are listed, namely:

- Operational Programme Competitiveness and Cohesion
- Operational Programme Efficient Human Resources
- The Rural Development Programme of the Republic of Croatia for the period 2014-2020
- Operational Programme for Maritime and Fisheries of the Republic of Croatia for the Programming Period 2014-2020

1. c) **Croatian Bank for Reconstruction and Development**
2. c) **Business plan**

### Answer:

In the web browser, you find the Croatian Bank for Reconstruction and Development website: <https://www.hbor.hr/>. Under the "Products and Services" menu, you choose the Loans section, where you will find loans for "start-ups, women, youth and innovators": <https://www.hbor.hr/start-up-zene-mladi-inovatori/>. When the website is opened, you can read the terms of lending for young entrepreneurs: [https://www.hbor.hr/kreditni\\_program/poduzetnistvo-mladih/](https://www.hbor.hr/kreditni_program/poduzetnistvo-mladih/).

## MODULE 5

Questions:

- 1.c) **Central Bureau of Statistics**
2. c) **index of the number of employed based on area of business activity**
3. d) **Other employment agencies**
4. b) **on Commercial Court notice board**
5. b) **Mentor program for vocational training**
6. b) **Decreasing unemployment rate**
7. c) **contributions**

### Correct answer:

Employer can use two measures for this candidate.

First measure: employment boost lasts 12 months (salary co-funding up to 50% of yearly amount of gross II. salary)

Second measure: By the Social Security Contributions Act, when employer hire for indefinite time person under 30 years, in next 5 years is exempt from contributions payment (17.2% gross I. salary)

Questions:

1. c) **Labour law**
2. a) **when draw up a contract of employment**
3. c) **Income Tax Law**
4. b) **Employer who hire 20 and more Employees**

**Correct answer:**

The answers are:

Hairdresser and accountant: 20 working days or 24 if working week is from Monday till Saturday (if Saturday is working day) – information obtained from the Labour Law.

Bricklayer: 20 or 24 working days (if Saturday is working day) + 1 day for each 4 years of occupational record. In the case of working Saturday it is 26 days of Holliday, or 22 days if Saturday is not working day. Information obtained from the Collective agreement for construction industry

Waiter: 20 or 24 working days (if Saturday is working day) + 1 day for each 6 years of occupational record. In this case, if Saturday is working day, it is 25 days of Holliday or 21 day if Saturday is not working day. See Collective agreement for catering industry.

1. d) **work safety**
2. c) **Decision from Croatian Central Bureau of Statistics**
3. a) **on the day of work begin before his working time began**
4. c) **none – they are equal with domestic employees**
5. b) **agriculture and forestry**
6. d) **Ministry of Interior web pages**
7. a) **European Employment Service**
8. b) **Employee**
9. a) **to register at Croatian Retirement Insurance registry as unemployed board member**
10. d) **State Administration Office- Public Service and Tax Department**

**Correct answer:**

Application form P.R. - Need for worker can be found [HERE](#).

Fixed-term employment contract (fulfilled with about Collective agreement for catering industry) can be found [HERE](#).

Form M.1.P. – registering worker in Retirement Insurance.

Form 2 – registering worker in Health Insurance

## **MODULE 6**

1. d) **Highly-qualified third-country nationals**
2. b) **Up to 90 days**

- 3. d) **Third-country nationals**
- 4. c) **In host country diplomatic mission/consular office in EEA member state or police department/office in host country**
- 5. **The EU Blue Card is issued for:**
  - a) **Temporary residence and work in Croatia for highly-qualified third-country nationals**
- 6. c) **Proof of school education**
- 7. a) **Foreigner**
- 8. c) **Foreigner or employer**

**Correct answer:**

Form 1b has to be filled in and copy of identity card or passport attached.  
Form 1b can be found on the web site of Ministry of Interior.

Questions

- 1. a) **Proof of passed work protection exam**
- 2. d) **Proof of passed a medical examination**
- 3. c) **Foreigner who carries out projects in his country based on international contract.**
- 4. a) **Worker who is posted by foreign employer for a limited or temporary period of time to carry out work in a state which is not a state in which he usually works.**
- 5. **Which of the following answer is not correct?**  
**The certificate of work registration is issued up to:**
  - d) **120 days during calendar year**

**Correct answer:**

Form 9a has to be filled in.

The following documents have to be attached:

- 1. a contract of employment, or a written confirmation that a contract of employment has been concluded, or any other relevant contract,
- 2. proof of educational background and qualifications,
- 3. proof of the registration of a company, branch office, representative office, trade, association or institution in the Republic of Croatia,
- 4. explanation on the justifiability of employment of an foreigner that contains information on the foreigner's professional knowledge, qualifications and work experience, and the reasons why this position cannot be assigned to a Croatian national on a labour market.

- 1. c) **Transit through transit area of an international airport**
- 2. b) **Proof of valid travel health insurance**
- 3. b) **Five years**
- 4. a) **Up to ten months or up to six months at once**
- 5.c) **Real estate possession in the host country**
- 7. d) **Ministry of Interior**

**Correct answer:**

Application Form: APPLICATION FOR CROATIAN VISA has to be filled in.

Required attachments are:

1. valid travel document
2. the validity period of the travel document should exceed that of the visa by three months
3. travel document must be issued in the previous 10 days
4. travel document must contain at least two empty pages for the visa
5. a 35x45 mm colour photo
6. evidence of travel health insurance
7. evidence of paid visa fee
8. documents that prove:  
the purpose of the stay in Croatia  
ensured accommodation  
means of subsistence to cover the stay in Croatia and the return to the country of origin or to a third country  
means of transport and the intention to return to the applicant's country of origin or to a third country
9. Letter of Guarantee (check if it is necessary)

Questions

1. a) **three months**
- 2.c) **Police station in Croatia**
3. d) **Extra authentication of foreign document before translating on host language**

**Correct answer:**

Form 1a (Application for family reunification)

It can be submitted at a diplomatic mission or consular office of the host country or to the police administration/station by place of residence.

- 1.d) **Selected law firms**
2. a) **State Intellectual Property Office**
3. c) **Under Education and Teacher Training Agency**

**Correct answer:**

If there is no diplomatic mission of host country in client's country, and if client's country has no diplomatic mission in a host country, legalization can be performed in a third country in which both countries have diplomatic missions, in the following manner: after authentication by the competent bodies of the country of origin, the document is legalized by its diplomatic



mission in the third country, then the ministry of foreign affairs of the third country, and finally the diplomatic mission of host country to the third country.

## **MODULE 7**

1. Questions

- 1. Features, geometric and position elements (surface, shape, location, distance)**
- 2. Property Valuation Act**

**Answer:**

The potential investor has to take into consideration the following elements: 1. ownership certificate, 2. location, 3. neighbourhood, 4. building quality, 5. building maintenance, 6. apartment equipment, 7. location revenue.

1. Dubrovnik-Neretva County

2. Šibenik-Knin County

**Answer:**

The real estate transaction tax in 2018 is 4%. Taking into account the obligation of the buyer, the investor will, apart from the sale and purchase price of the land, also pay the real estate transaction tax in the amount of HRK 40,000.

1. Questions

- 3. by entering into possession**
- 2. by registering in the land registry**

**Answer:**

Before the purchase of a real estate, the sale and purchase contract must be notarized by a notary public. The sale and purchase contract can include a permit for land registration, and in the case where the contract does not contain the permit, it must be demanded from the seller after the payment of the purchase price. The notarized sale and purchase contract, permit for land registration, proof of citizenship and a proposal for the registration in the land registry must be submitted to the land registry court according to the area where the real estate is located.

**1. The permit for land registration is the statement of the real estate owner by means of which the seller, after the receipt of the entire purchase price, gives a permission to the buyer to register the ownership regarding the real estate, without any future objections and limitations.**

**Answer**

Given that the Republic of Croatia has a 40% ownership share, it is a subject to special rules relating to the purchase of a real estate when the real estate owner is a public administration body. Given that the Republic of Croatia owns less than 50% of the real estate, it can dispose of it without a public tender, according to the market value, according to the location permit or an implementing act of spatial planning. Therefore, an investor can send a request for sale of the real estate to the State Property Ministry.

**2. Ministry of Justice of the Republic Croatia**

**4. 7 years**

**Answer**

On the website of the Ministry of Justice of the Republic of Croatia, there is information on a reciprocity regarding the acquisition of real estate ownership rights between the Republic of Croatia and other countries: <https://pravosudje.gov.hr/istaknute-teme/stjecanje-prava-vlasnistva/informacije-o-uzajamnosti-u-stjecanju-prava-vlasnistva-nekretnina-izmedju-republike-hrvatske-i-ostalih-drzava/6186>.

By checking the list for the abovementioned countries, the investors should be given the following advice:

- regarding Bosnia and Herzegovina, there is a reciprocity without restrictions
- regarding the state of Qatar there is a reciprocity: for natural persons regarding residential real estate, and for legal persons there is a requirement that they have to have a partner from the Republic of Croatia with a 51% ownership in each economic activity.
- regarding Malaysia, there is a reciprocity, under the condition that the value of the real estate must be at least 55000 USD, while a legal person must acquire the real estate for business purposes, that is, the real estate must be used for economic activities.

**1. It determines in detail the spatial development of a borough.**

**4. Urban renovation of boroughs.**

**Answer**

As the investor wants to build an apartment complex on a land particle, two documents need to be consulted: UPU - Urban Plan of Spatial Organization and DPU - Detailed Spatial Organization Plan. Due to the position of the particle, it is possible to determine the conditions and possibilities of the construction from the above-mentioned documents.

**1.The Register of Entrepreneurial Infrastructure**

**2. Entrepreneurial camps**

**Answer**

By checking the Register of Entrepreneurial Infrastructure, which can be found at <http://reg.mingo.hr/pi/public/>, an insight into entrepreneurial infrastructure can be gained. By doing that, it can be found out that in the area of Primorje-Gorski Kotar County there are the following entrepreneurial zones: Industrial Zone d.o.o., Entrepreneurial Zone West, Entrepreneurial Zone Kargač, Work Zone Mišnjak, Production Zone Soboli I2, Work Zone Marišćina K-2, Entrepreneurial Zone Barci.

#### **1. 4.Croatian Chamber of Economy**

#### **2. 3.Ministry of Economy, Entrepreneurship and Crafts**

#### **Answer**

Authorized real estate agencies have been entered into the Register of Real Estate Brokers kept by the Croatian Chamber of Economy. The investor should be advised to check the Register of Real Estate Brokers by submitting a query to the Croatian Chamber of Economy before buying the real estate.

### **MODULE 8**

Questions:

- 1. c) less listening and more talking**
- 2. a) listens, asks question, remains silent**
- 3. c) gives responses promptly, interprets, gives instructions and information**
- 4. d) organizational skills in administration**
- 5. c) compassion, assessing and criticizing the client**
- 6. b) listening**
  
- 7. b) paying attention to body language and facial expression**
- 8. d) focus on writing**
- 9. a) client's vocabulary**
- 10. c) to gather more information**
- 11. d) becomes insecure and doubts the advisor's expertise**
- 12. b) ability to understand and share the feelings of another person**
- 13. b) concern and understanding for the client's situation**

#### **Solution:**

Check how many facts did you miss and how important they are and compare with the original story.

For a good result, you should have also written down information about the speaker's body language.

Your answer is good

- if you remembered important information from 8 or more sentences and if you wrote at least one information from body language.

Your answer is partially good /incomplete

- if you remembered important information from 6 or 7 sentences and if you wrote at least one information from body language of the speaker, or
- if you remembered important information from at least 5 sentences and if you wrote more than 3 information from body language of the speaker.

Your answer is wrong

- if you remembered less than 5 sentences.

1. b) give him simple and precise information and directions
2. a) investigate the client's motive
3. d) to remove everything that could cause distractions
4. d) the advisor
5. d) directed towards clients wishes and needs
6. d) what message she wants to convey to the client
7. b) health condition
8. d) the advisor provides information and solutions, the client decides
9. a) high self-discipline

**Solution:**

Your answer is good

- if you recognized properly more than 80% signals of body language and if you have include more than 80% of written text in your speech.

Your answer is partially good / incomplete

- if you recognized properly 50%- 80% signals of body language and if you have include 50%- 80% of written text in your speech.

Your answer is wrong

- if you recognized less than 50% signals of body language or if you have include less than 50% of written text in your speech

1. c) combination of characteristics that make an individual different from others
2. b) intuition
3. d) sanguine
4. b) determining the financial situation of the client
5. b) stable
6. a) impartial
7. a) unpredictable
8. c) decisive
9. b) choleric
10. b) choleric
11. a) melancholy and phlegmatic
12. d) choleric and sanguine

**Solution:**

In recognising people's personality, experience is necessary. So,

Your answer is good

- if you have managed to estimate for each person at least one of their personality blends, (example: for choleric/sanguine you wrote only choleric or only sanguine).

Your answer is partially good / incomplete

- if you have managed to estimate for 2 or 3 persons at least one of their personality blends, or
- if you have managed to estimate for 2 persons exactly personality blend (example: choleric/sanguine).

Your answer is wrong  
in other cases.

1. c) **Get/Lose**

2. d) **Give/Get**

3. b) **traditional values**

4. c) **philosopher**

**Solution:**

If you managed to accomplish Distributive negotiation "Win/Win", then you successfully applied the principle of quality negotiation.

Your answer is good

- if you applied "Win/Win" type of negotiation as a buyer and as a seller.

Your answer is partially good / incomplete

- if you applied "Win/Win" type of negotiation at least ones (as a buyer or as a seller).

Your answer is wrong

- if you didn't apply "Win/Win" negotiation type.

1. a) **the room should not be transitory**

2. d) **it reveals real emotions**

3. b) **speech needs to be comprehensive and detailed**

4. c) **it confirms the safety of the agreed facts**

**Solution:**

Good preparation include 4 answers:

1. set the highest and lowest goal
2. prepare a material for taking notes and writing conclusions
3. (psychic space) set up the chairs on a decent distance between you and your interlocutor
4. (physical space) prepare neat, clean and warm space, not too small, not too big, which is not transitory.

Your answer is good:

- if you specified all 4 answers.

Your answer is partially good / incomplete

- if you specified 2 from 4 answers, or
- if you specified all 4 answers in part.

Your answer is wrong  
if you specified less than 2 answers

- 1. a) alternative**
- 2. d) not to accept the offer, but demand more**
- 3b) ignore premature request**

### **Solution:**

If you applied elements of avoiding hard negotiation:

- repress excessive self-confidence of the interlocutor on time
- shock the interlocutor by announcing an extreme request, not letting him to do it first
- keep self-control and control of the interlocutor
- promptly alert the interlocutor that the hard competition is not an option

and accomplished at least minimum of your expectation, then your result is good.

If you applied 50% mentioned elements of avoiding hard negotiation your result is partially good / incomplete.

If you didn't apply elements of avoiding hard negotiation or if you applied less than 50% mentioned elements and if you didn't accomplish at least minimum of your expectation, then your answer is wrong.

## **MODULE 9**

- 1.a) No, they can learn via a computer without additional software.**
- 2.c) Oral examination of knowledge**

Enter correct answer:  
(Photo of the new forum.)

Questions

- 1.a) Conventional learning in the classroom, blended learning, learning in an e-lecture room;**
- 2.b) Yes**
- 3.b) providing individual instruction**

### **Correct answer:**

The purpose of the introductory conventional lectures is:

- getting to know the basic concepts of individual modules,
- learning about e-learning materials,
- getting familiar with examples from practice,
- motivating,
- discussing the key content of the modules.

## Questions:

### 1.d) One

### 2.b) Motivation of participants in conventional meetings

#### Correct answer:

The course of Module 1 execution consists of the following components:

#### 1. Introductory meeting

The introductory meeting in the classroom is intended for the meeting of the mentor and participants, learning about the subject matter, study literature and the work method. The mentor presents an overview of the subject matter and the work schedule, defines the requirements and activities as well as deadlines for completing including activities. It also publishes learning objectives and expectations and defines rules of behaviour and acting in the course.

#### 2. Activities of the participants

Participants study the learning materials and participate in various forms of collaborative learning and communication.

#### 3. Activities of the mentor

The mentor regularly monitors participants' activities, encourages cooperation and communication. In particular, asynchronous communication is foreseen, and if necessary, long-distance synchronous communication is organized at least once a week. The mentor monitors students' work, directs and observes their progress, actively participates, promotes and leads interactive discussions, answers questions, directs the learning, checks students' work, and provides feedback and recommendations related to learning activities or received products. At the end, the mentor evaluates and grades students' work (test).

Please rate your answer:

- Correct
- Partially correct / incomplete
- Incorrect

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for any use that may be made of the information it contains.

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**Circulation / Naklada / Naklada / Αντίτυπα: 300**

**Year of publishment/ Leto izdaje/Godina izdavanja/Έτος δημοσίευσης: 2019**



**Erasmus+**



This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Izvedba tega projekta je financirana s strani Evropske komisije. Vsebina publikacije (komunikacije) je izključno odgovornost avtorja in v nobenem primeru ne predstavlja stališč Evropske komisije.

Sufinancirano sredstvima programa Evropske unije Erasmus+.

Ova publikacija odražava isključivo stajalište autora publikacije i Komisija se ne može smatrati odgovornom prilikom uporabe informacija koje se u njoj nalaze..

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