

be divided into: 1. the failure to master the specialized vocabulary of knowledge management; and 2. the failure to reflect the systematic process of knowledge management. Understanding the logic which underlies the knowledge management should not be a professional judgement based, but broader in scope and more specialized in nature. According to the methodology of this paper, it could be said that the advent of knowledge management has shaken the recognition rules and in consequence the relevance and reliability of accounting information. The accounting rules by its state qua have become outdated, and no longer valid to absorb assets of knowledge management. The treatments of knowledge initiatives by the existed recognition rules and practices have become inadequate. However, ignoring knowledge assets as result to rules of accounting (in particular, discovery and learning of the value chain) contributes to phenomena of information asymmetry of accounting. The current situation of accounting model facilitates the release of biased and even fraudulent financial information. The tangible recognition rules have been considered the driving engine of the operational revenues. Thus, emergence of knowledge business model entails a new accounting recognition rules that perfectly match necessities of knowledge management. It could be said that “reinventing the wheel” is urgent to cope with knowledge assumptions. Accounting theory needs to measure what is matter instead of how does measurement matter is? Investigation of accounting logic is needed, including the effectiveness of measurement techniques, timing of the measurement, and use of changing reporting formats. The role of accounting is imperative in articulating any shift for business change. Accounting change and reform need to address the conflicting issues with the transformational style of knowledge management. The preference for “replacing”

over “improving” in accounting for knowledge management means that the accountant’s community has to deal with assumptions of knowledge management seriously to develop a new accounting model. This paper contends that the extensive exploration of the various dimensions of lacks and shortcomings is an appropriate approach for judging validity of accounting model. The narrowness of accounting scope and recognition rules has restricted the accounting change. Accordingly, accounting has become outdated and no longer valid to absorb recognition of the knowledge management. This situation has driven the financial reporting to be away from business value. As consequences, gap of market value has been increased and accounting lost its direct influence on management decisions. This gap has created what can be called value paradox. It’s a concept of knowledge management which compares knowledge extraction to knowledge embodies (Boisot, 1998). It has emerged since the last two decades because of the differences between accounting and knowledge management in terms of interests, measurement techniques, and knowledge assets evaluation. This value paradox is denying the role of accounting as a communicator of business information. In accounting, value paradox concept has taken different context and applications. Initially, knowledge management is eighty percent about customers and culture changes (Leibowitz, 1998). The practices of knowledge are directly linked with organizational performance and measured based on customer loyalty, product differentiation, and operations excellence (Zack *et al.*, 2009). Generating new knowledge is a key source of competitive advantages and profit, while lack of knowledge may lead to the failure (Mietlewski and Walkowiak, 2007). The dynamic of knowledge process was always the center of the theoretical arguments. Knowledge management is a value