

the profit engine nor reporting priorities of knowledge business model. Further, the equity is no longer matching the requirements of the accounting definition in terms of ownership and effectiveness. Knowledge equity is not only owned to shareholders, but to stakeholders and based on customer's and employee's equities. These seismic logical changes have raised the critical questions about the validity of accounting equation and the reporting formats of financial statements. The critical theory of accounting clearly declared those two out of three components of the accounting equation is no longer valid and effective to reflect knowledge initiatives result. The critical theorists of accounting argue that the terms of assets definition have become inadequate and no longer valid to match the realities of knowledge management. It is inconceivable to address knowledge performance by the equation and financial statements of the industrial management. According to those theorists, the philosophical theory of accounting does not drive the practices of knowledge companies. The advocates of accounting essentialism have judged by consequences the validity of accounting against knowledge management. Consequently, they assessed the feasibility of creating knowledge financial statements to replace the industrial set (Amidon, 2003). The great emphasis of the new set has been centered on knowledge assets and value reporting to match assumptions and necessities of knowledge management. Applying the new models of business technologies has been started since the mid of nineties. As a result, assets of knowledge financial statements come down and less working capital is presented. A new set of knowledge financial statements is mingling knowledge, technology, and intellectual capital as a matrix of business success. A key feature of these statements is transformation of working capital from being financial asset to

business liability. In knowledge financial statements, business goal is zero or even negative working capital (Keen and Balance, 1997). For example, in knowledge financial statements, sales policies of companies aimed at rapid collection of accounts receivables. The result of such action is a balance sheet that shows accounts receivables with period of many days and accounts payable with time period of months. The cash surplus means that companies are probably not using adequate business technologies of investment and commerce. The large accounts receivable is an indication of the inadequacy of electronic payment, electronic data interchange, networking, and other concerned systems. However, large inventories, material and manufacturing goods are evidences of poor customer-supplier electronic links, and ignorance of just-in-time tools. Using information technology was not confined to substitute information with inventory or zero working capital. But using high speed data communication networks to track production, stock, and orders has replaced physical assets by virtual assets. As a result for such replacement, knowledge companies have been reduced in terms of size. The problem of the accounting model, is that accounting balance sheet or tangible assets sheet has taken its present format in 1868. Its format portraits the old realities of accounting for industrial management. The fundamental implication of the balance sheet equation is that total assets of business have to be equal to both liabilities and equities. The architecture of this equation has been tailored to match the management of accounting assets. More specifically, in terms of working capital (receivables and inventory), and non-current assets (machines and stores). Use of knowledge assets has changed the rules of the game and priorities of companies. As hard assets is no longer considered profit engine of knowledge business model. Further,