Return On Investment: The Relation Of Book-Yield To True Yield

Abstract

The paper analyses the relationship between the book-yield on investment (measured as the conventional ratio of net book-income to net book-value of assets) and the true yield on investment. It examines the effect on this relationship of variations in capitalization policy, depreciation methods, revenue patterns and investment growth rates. It discusses the potential error in the conventional book-measure of rate of return for the oil and gas producing industry and the implications of this error for managerial evaluation and F. P. C. regulation.

Introduction

The rate of return on investment is a key concept which is widely used for a number of significant business and financial purposes. It is of central importance for the evaluation of an individual investment project; the financial evaluation of a company's performance evaluation of managerial efficiency for a division or a product-line, and finally as a guide for establishing ceiling prices in the regulated industries.

The most commonly used multi-purpose measure for return on investment is the ratio of net book income, as this is conventionally measured by the accounting process, to net book value of assets employed, similarly measured. The measure has several names such as "the accounting rate of return," "the book rate of return," or "the conventional rate of return," but for purposes of this paper we will refer to it as "book-yield."

One reason for the widespread use of book-yield as a measure of return on investment is that it ties in directly with the accounting process. A second and even more important reason is that it is the only approach available for measuring the on-going return on investment for a collection of assets which together comprise a division or a company. In spite of the almost universal use of book yield, we know very little about the accuracy of the measure itself. Does it correctly measure the actual yield on investment? Is it a consistent general yardstick in the sense that it provides comparable measures as between divisions, companies, and industries? These questions have hardly been asked, let alone answered.

For at least one class of purposes for which return on investment is used, the book yield measure has been questioned and found wanting. I refer to single investment projects or acquisitions. In this situation the size and timing of all investment outlays and all net cash receipts flowing from these outlays are available, or can be estimated-either retrospectively or prospectively.
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How are the terms Return on investment and Yield related? Return on investment and Yield are synonymous, and they have mutual synonyms. Return on investment noun – (corporate finance) the amount, expressed as a percentage, that is earned on a company's total capital calculated by dividing the total capital into earnings before interest, taxes, or dividends are paid. Yield and return on investment are semantically related. In some cases you can use "Yield" instead a noun phrase "Return on investment". Synonyms for Return on investment. Yield. Show Definitions. Yield noun – An increase usually measured in money that comes from labor, business, or property. Return on investment and yield are semantically related. Yields are derived by dividing a hotel's earnings by its market value. The lower the yield the better it is for the seller. The idea being that a buyer will be prepared to pay more for an asset given the current level of earnings. This could be due to a number of factors ranging from how desirable the asset is to a company's strategic fit and other emotive factors. The drawback with this approach is understanding what is a good yield. Whilst a more transparent market in the US, for example, provides good benchmarks, this is not the case in Europe unless the buyer/seller has/had a portfolio to refer to. As such, in Europe, at least, this method remains muted. Additionally the opaque nature of the transaction market makes it that much more difficult to benchmark comparable transactions. Many translated example sentences containing 'yield return on investment' – Russian-English dictionary and search engine for Russian translations. It is contrary to the logic of financial relations to borrow. [...] money at an interest (even if the interest rate is very. [...] low), if its investment cannot yield an acceptable rate of return. iep.ru. In the medium term, we expect the average return on equity and the dividend yield to increase. halykfinance.kz. halykfinance.kz.