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,” “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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PetroWiki\(^\text{R}\) was initially created from the seven volume Petroleum Engineering Handbook (PEH) published by the Society of Petroleum Engineers (SPE).
The SEG Wiki is a useful collection of information for working geophysicists, educators, and students in the field of geophysics. The initial content has been derived from : Robert E. Sheriff’s Encyclopedic Dictionary of Applied Geophysics, fourth edition.

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. 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. If the company is a true A-Book Broker, not a Dealer, then the risk of losing money for the wrong conflict-of-interest ridden reasons (when with a Dealer) is mitigated. Just remember that reputable or not, if the company isn’t trading WITH its customers (which is what true brokers do), the odds of losing investments for the wrong reasons are always immensely high. Here’s another answer on Quora that explains the Broker/Dealer/Broker-Dealer difference in detail (well worth the read) Only then can someone take on the discipline of following such systems or implementing their own under the funds supervision to yield maximum growth. Otherwise your efforts will result in inevitable failure working without a quantified system that has an exact method of entering and exiting the markets daily. Bonds and other fixed-income investments -- that is, investments that provide regular, equal payments -- are commonly quoted according to their effective interest rate, known as ‘yield to maturity.’ All investments, meanwhile, have an internal rate of return, or the total return earned by investors. A closer look at yield to maturity and internal rate of return reveals that in the case of fixed-income investments, they are one and the same. IRR. In simple terms, the internal rate of return, or IRR, is the return you will be getting from an investment if you assume that everything you