

Financial Assets and Liabilities Not Measured at Fair Value

Short-Term Receivables and Payables

Notes and other accounts receivable and other investments are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and short-term debt (excluding the current portion of long-term debt and including short-term finance lease liabilities) are financial liabilities with carrying values that approximate fair value. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy, except for short-term debt which would be classified as Level 2.

Loans and Long-Term Receivables

Fair values are based on discounted future cash flows using current interest rates offered for similar loans to clients with similar credit ratings for the same remaining maturities. At December 31, 2019 and 2018, the difference between the carrying amount and estimated fair value for loans and long-term receivables was immaterial. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy.

Long-Term Debt

Fair value of publicly traded long-term debt is based on quoted market prices for the identical liability when traded as an asset in an active market. For other long-term debt (including long-term finance lease liabilities) for which a quoted market price is not available, an expected present value technique that uses rates currently available to the company for debt with similar terms and remaining maturities is used to estimate fair value. The carrying amount of long-term debt was \$54,102 million and \$35,605 million, and the estimated fair value was \$58,431 million and \$36,599 million at December 31, 2019 and 2018, respectively. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.

NOTE J. INVENTORY

(\$ in millions)

At December 31:	2019	2018
Finished goods	\$ 220	\$ 266
Work in process and raw materials	1,399	1,415
Total	\$1,619	\$1,682

NOTE K. FINANCING RECEIVABLES

Financing receivables primarily consist of client loan and installment payment receivables (loans), investment in sales-type and direct financing leases, and commercial financing receivables. Client loan and installment payment receivables (loans) are provided primarily to clients to finance the purchase of hardware, software and services. Payment terms on these financing arrangements are generally for terms up to seven years. Client loans and installment payment financing contracts are priced independently at competitive market rates. Investment in sales-type and direct financing leases relates principally to the company's Systems products and are for terms ranging generally from two to six years. Commercial financing receivables relate primarily to inventory and accounts receivable financing for dealers and remarketers of IBM and OEM products. Payment terms for inventory and accounts receivable financing generally range from 30 to 90 days.

Beginning in the second quarter of 2019 and continuing throughout the year, the company wound down the portion of its commercial financing operations which provides short-term working capital solutions for OEM information technology suppliers, distributors and resellers, which has resulted in a significant reduction of commercial financing receivables. This wind down is consistent with IBM's capital allocation strategy and high-value focus. IBM Global Financing will continue to provide differentiated end-to-end financing solutions, including commercial financing in support of IBM partner relationships.

A summary of the components of the company's financing receivables is presented as follows:

(\$ in millions)

	Investment in Sales-Type and Direct Financing Leases	Commercial Financing Receivables	Client Loan and Installment Payment Receivables/ (Loans)	Total
At December 31, 2019:				
Financing receivables, gross	\$6,077	\$3,836	\$13,592	\$23,504
Unearned income	(509)	(4)	(570)	(1,083)
Recorded investment	\$5,567	\$3,831	\$13,022	\$22,421
Allowance for credit losses	(72)	(11)	(138)	(221)
Unguaranteed residual value	652	—	—	652
Guaranteed residual value	53	—	—	53
Total financing receivables, net	\$6,199	\$3,820	\$12,884	\$22,904
Current portion	\$2,334	\$3,820	\$ 8,037	\$14,192
Noncurrent portion	\$3,865	\$ —	\$ 4,847	\$ 8,712