

include contracts that have an original duration of one year or less. RPO estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustments for revenue that has not materialized and adjustments for currency.

At December 31, 2019, the aggregate amount of the transaction price allocated to RPO related to customer contracts that are unsatisfied or partially unsatisfied was \$126 billion. Approximately 60 percent of the amount was expected to be recognized as revenue in the subsequent two years, approximately 35 percent in the subsequent three to five years and the balance (mostly Infrastructure & Cloud Services) thereafter.

**Revenue Recognized for Performance Obligations Satisfied (or Partially Satisfied) in Prior Periods**

For the year ended December 31, 2019, revenue was reduced by \$50 million for performance obligations satisfied (or partially satisfied) in previous periods mainly due to changes in estimates on contracts with cost-to-cost measures of progress. Refer to note A, "Significant Accounting Policies," for additional information on these contracts and estimates of costs to complete.

**Reconciliation of Contract Balances**

The following table provides information about notes and accounts receivable—trade, contract assets and deferred income balances.

(\$ in millions)		
At December 31:	2019	2018
Notes and accounts receivable—trade (net of allowances of \$299 in 2019 and \$309 in 2018)	\$ 7,870	\$ 7,432
Contract assets <sup>(1)</sup>	492	470
Deferred income (current)	12,026	11,165
Deferred income (noncurrent)	3,851	3,445

<sup>(1)</sup> Included within prepaid expenses and other current assets in the Consolidated Balance Sheet.

The amount of revenue recognized during the year ended December 31, 2019 that was included within the deferred income balance at December 31, 2018 was \$9.5 billion and primarily related to services and software.

**Deferred Costs**

(\$ in millions)		
At December 31:	2019	2018
Capitalized costs to obtain a contract	\$ 609	\$ 717
Deferred costs to fulfill a contract		
Deferred setup costs	1,939	2,085
Other deferred fulfillment costs	1,820	2,173
<b>Total deferred costs<sup>(1)</sup></b>	<b>\$4,368</b>	<b>\$4,975</b>

<sup>(1)</sup> Of the total deferred costs, \$1,896 million was current and \$2,472 million was noncurrent at December 31, 2019 and \$2,300 million was current and \$2,676 million was noncurrent at December 31, 2018.

The amount of total deferred costs amortized during the year ended December 31, 2019 was \$3,836 million and there were no material impairment losses incurred. Refer to note A, "Significant Accounting Policies," for additional information on deferred costs to fulfill a contract and capitalized costs of obtaining a contract.

**NOTE D. SEGMENTS**

In the first quarter of 2019, the company made a number of changes to its organizational structure and management system that brought cloud and cognitive software under one organization to more effectively address evolving client needs and to prepare for the acquisition of Red Hat. With these changes, the company revised its reportable segments, but did not impact its Consolidated Financial Statements.

The segments represent components of the company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker (the chief executive officer) in determining how to allocate resources and evaluate performance. The segments are determined based on several factors, including client base, homogeneity of products, technology, delivery channels and similar economic characteristics.