

OBLIGATIONS

1. The following are the requisites of an obligation, except:
 - a. Passive subject, debtor or obligor.
 - b. Active subject, creditor, or obligee.
 - c. Efficient cause.
 - d. **Demand.**

It is insistent and peremptory request, made as if by right.

2. Obligations may arise from any of the following, except:
 - a. Contracts.
 - b. Quasi-contracts.
 - c. Law.
 - d. **Prestation.**

It's the object or subject matter of the obligation

3. It is the voluntary administration of the property of another without his consent.
 - a. **Negotiorum gestio**
 - b. Solutio indebiti
 - c. Quasi-delict
 - d. Contract

It creates the obligation to reimburse the gestor for necessary and useful expenses.

4. It is a wrong committed without any pre-existing relations between the parties.
 - a. Natural obligations
 - b. **Quasi-delict**
 - c. Quasi-contract
 - d. Crime

These are acts or omissions that cause damages to another, there being fault or negligence but without any pre-existing contractual relation between the parties.

5. Unless the law or the stipulations of the parties require another standard of care, every person obliged to give something is also obliged to take care of it with:
 - a. Extra-ordinary diligence.
 - b. Diligence of a father of a good family.
 - c. **Diligence of a good father of a family.**
 - d. Good diligence of a father of a family.

If both the contract and law are silent then the diligence expected of a good father of a family.

6. The creditor has a right that is enforceable against a definite passive subject. This right is known as:
 - a. **Personal right.**
 - b. Real right.
 - c. Natural right.

d. Civil right.

This is the right that may be enforced by one person to another.

7. It is a thing that is particularly designated or physically segregated from all others of the same class.

- a. Generic thing.
- b. Indeterminate thing.
- c. **Determinate thing.**
- d. Real thing.

It is identified by its individuality.

8. One of the following is a determinate thing. Which is it?

- a. A cow.
- b. A horse.
- c. **A Toyota car with engine no. 12345, body no. 34890 and a plate no. ABC 123.**
- d. A ring with diamond embellishment.

Car can be identified easily because of its individuality.

9. Demand must be made on the due date of the obligation in order for delay to exist in one of the following cases. Which is it?

- a. When it was stipulated by the parties that demand need not be made.
- b. When the law provides that demand need not be made.
- c. **When the obligation does not indicate whether demand must be made or not on due date.**
- d. When time is of the essence of the contract.

10. This refers to delay on the part of the creditor.

- a. Mora solvendi ex re
- b. Compensation morae
- c. Mora solvendi ex personae
- d. **Mora accipiendi**

Delay on the part of the debtor to fulfill his obligation (to give, or to do).

11. There shall be no liability for loss due to fortuitous events in one of the following cases. Which is it?

- a. When the debtor delays.
- b. When the parties so stipulated that there shall be liability even in case of loss due to fortuitous events.
- c. When the nature of the obligation requires the assumption of risks.
- d. **When the obligation is to deliver a determinate thing and there was no stipulation as to the liability of the debtor in case of loss due to fortuitous events.**

No person shall be liable for fortuitous event.

12. The following are the remedies of the creditor to pursue his claims against the debtor, except to:

- a. Pursue the property owned and in possession of the debtor.
- b. Exercise all the rights and bring all the actions of the debtor (accion subrogatoria)

- c. Impugn the acts which the debtor may have done to defraud his creditors (accion pauliana).
- d. **Compel the debtor to perform the service in obligations to do.**

13. D borrowed P50, 000.00 from C. C dies before he has collected the debt leaving S, his son, as heir. Which of the following statements is correct?
- a. **S can collect from D although D and C did not agree that the credit right will pass on to the heirs of C.**
 - b. S cannot collect because the credit right is personal to C.
 - c. S can collect only if D and C agreed that the credit right will pass on the heirs of C.
 - d. S cannot collect because the law prohibits the transmission of the credit right.

All rights acquired in virtue of an obligation are transmissible.

14. D is obliged to give C a specific car if C passes the CPA Licensure Examination. D's obligation is an example of:
- a. A pure obligation
 - b. **An obligation with a suspensive condition.**
 - c. An obligation with a resolutive condition.
- e. An obligation with a period.
Because it is a condition the happening of this will give rise to the obligation.

15. One of the following obligations is not immediately demandable.
- a. Pure obligation.
 - b. Obligation with a resolutive condition.
 - c. Obligation with an in diem period.
 - d. **Obligation with an ex die period.**

This is a period with a period with a suspensive effect. Here, the obligation becomes demandable at once but is extinguished upon the lapsed of the period.

16. One of the following is a void obligation:
- a. D is obliged to give C P5, 000.00 if C does not go to the moon.
 - b. **D is obliged to give C P5, 000.00 if D goes to Baguio.**
 - c. D is obliged to give C P5, 000.00 if C goes to Baguio.
 - d. D is obliged to give C P5,000.00 if D wins first prize in the sweepstakes on a ticket that he had already purchased.

It is a conditional Obligation void impossible conditions annul the obligations which depends upon them.

17. D is obliged to give C P10,000.00 if X dies. This is an example of:
- a. An obligation with a suspensive condition.
 - b. An obligation with a resolutive condition.
 - c. **An obligation with a period.**
 - d. A pure obligation.

The remedy of the creditor is to ask the court to fix.

18. When the debtor binds himself to pay when his means permit him to do so, the obligation is:

- a. An obligation with a resolutive condition.
- b. A pure obligation.
- c. An obligation with a suspensive condition.
- d. **An obligation with a suspensive period.**

Because the obligations begins only from a day certain upon the arrival of period.

19. Whenever a period is designated in an obligation, the said period shall be presumed to have been established for the benefit of:
- a. The debtor.
 - b. The creditor.
 - c. **Both debtor and creditor.**
 - d. Neither of the parties.

This means that before the expiration of the period, the debtor may not fulfill the obligation and neither may the creditor demand its fulfillment without the consent of the other especially if the latter would be prejudiced or inconvenienced thereby.

20. The debtor shall lose the right to make use of the period in the following cases, except when he:
- a. becomes insolvent
 - b. Violates any undertaking in consideration of which the creditor agreed to the period.
 - c. Attempts to abscond.
 - d. **Does not furnish any guaranty or security to the creditor.**

Art. 1198 paragraph 1 states that the debtor shall lose every right to make use of the period in any of the following unless he gives a guaranty or security for the debt.

21. An obligation ceases to be alternative and becomes a simple obligation in the following cases, except when:
- a. The debtor has communicated his choice to the creditor.
 - b. The right of choice has been expressly granted to the creditor and his choice has been communicated to debtor.
 - c. Among the several prestations that are due only one is practicable.
 - d. **Three prestations are due but one of them is unlawful or impossible.**

Alternative obligation is one wherein various prestations are due but the performance of one of them is sufficient while simple obligation has only one prestation which it states in Art. 1200 paragraph 2.

22. D is obliged to give C a specific watch, a specific ring, or a specific bracelet. The parties agreed that C will have the right to choose the thing which will be given to him. Before C could make his choice, the watch and the ring are lost through D's fault, successively. What is the right of C?
- a. **C may choose the delivery to him of the bracelet, or the price of the watch or the price of the ring plus the damages.**
 - b. C cannot choose the price of the watch or the price of the ring because the said objects have already been lost.
 - c. C can only choose to have the bracelet because anyway, D can still perform his obligation.
 - d. C can only choose to have delivery of the bracelet or the price of the ring which was the last item that was lost plus damages.

C has the right to demand for the value of the thing plus the damages since it was the fault of the debtor.

23. D is obliged to give C a specific ring . The parties agreed that D may give a specific bracelet as substitute. Which of the following statements is true?
- a. **If the ring is lost through a fortuitous event before substitution, the obligation is extinguished.**
 - b. If the bracelet is lost through a fortuitous event before substitution, the obligation is extinguished.
 - c. If the ring is lost through a fortuitous event after substitution, the obligation is extinguished.
 - d. If the ring is lost through the debtor's fault after substitution, the debtor shall pay damages.

Obligation is extinguished due to a fortuitous event because no one should be held liable for a fortuitous event.

24. A, B, C and D are obliged to give V, W, X, Y and Z, P20,000.00
- a. V may collect from A P20,000.00
 - b. V may collect from A P5,000.00
 - c. **V may collect from A P1,000.00**
 - d. V may collect from A P4,000.00

Equal distribution of the obligation to give.

25. A, B, C, and D, joint debtor, are obliged to give V, W, X, Y, and Z, solidary creditors, P20,000.00
- a. V may collect from B P20,000.00
 - b. V may collect from B P4,000.00
 - c. **V may collect from B P5,000.00**
 - d. V may collect from B P1,000.00

It is in the section 4 Art. 1207 and Art. 1208 the Joint and Solidary Obligations.

26. A, B, C, and D solidary debtor, are obliged to give V, W, X, Y, and Z, joint creditor, P20,000.00
- a. V may collect from B P20,000.00
 - b. **V may collect from B P4,000.00**
 - c. V may collect from B P5,000.00
 - d. V may collect from B P1,000.00

Joint obligation is where the whole obligation is to be paid or fulfilled proportionately by the debtors. (Refer to Art. 1207 and Art. 1208).

27. A, B, C and D, solidary debtors, are obliged to give V, W, X, Y and Z, solidary creditor P20,000.0
- a. **V may collect from D P20,000.00**
 - b. V may collect from D P4,000.00
 - c. V may collect from D P5,000.00
 - d. V may collect from D P1,000.00

Solidary obligation where each one of the creditor has the right to demand from any of the debtors, entire compliance with the prestation refer to Art 1207 and Art. 1208.

28. A, B, C, and D, are solidary debtors of X in the amount of P9,000.00

- a. X may collect from A P9,000.00
- b. **X may collect from A P6,000.00**
- c. X may collect from A P1,000.00
- d. X may collect nothing because the obligation is voidable, C is being minor.

Art. 1216 the creditor may proceed against any one of the solidary debtors or some or all of them simultaneously.

29. The following obligations are divisible, except an obligation:

- a. **To give definite things.**
- b. Which has for its object the execution of a certain of days of work.
- c. Which has for its object the accomplishment of work by metrical units.
- d. Which by its nature is susceptible of partial performance.

Art. 1223 tackle's divisible and indivisible obligations since it refers to a definite things it is presumed to be indivisible.

30. In obligations with a penal clause, the creditor as a rule may recover from the debtor in case of breach the following:

- a. the penalty as agreed upon, plus damages and interest.
- b. the penalty and damages.
- c. the penalty and interest.
- d. **only the penalty.**

Section 6 Art. 1226, a penalty is an accessory of the principal obligation to pay a previously stipulated indemnity intended primarily to induce its fulfillment.

31. Rockman and Company published an advertisement in the newspapers which reads as follows "INVITATION TO BID: Construction of the company's warehouse located at 123 Luzon Street, Sta. Quiteria, Quezon City". The advertisement also included the specifications of the warehouse to be constructed. three companies submitted their bids: ABC Company, with a bid price of P4,500,000.00. After considering the financial capability, reputation and experience of the bidders, the kind and quality of materials to be used and other factors, Rockman and Company, the lowest bidder, now questions the award made by Rockman Company to DEF Company which submitted a higher bid.

- a. The award to DEF Company is voidable because it was only the second lowest bidder.
- b. **ABC Company should be the winning bidder having submitted the lowest bid.**
- c. The award to DEF Company is valid because Rockman Company was not bound to accept the lowest bidder.
- d. The award to DEF Company is void by reason of Rockman's violation of the terms of the invitation to bid.

It may refer to the principle of Bidding in which it follows a process.

32. One of the following is not incapable of giving his consent.

- a. Insane persons.
- b. Deaf-mutes who do not know.
- c. Deaf-mutes who know how to read.
- d. **Unemancipated minors.**

Art. 1327 the following cannot give consent to a contract such as unemancipated minors.

33. A contract entered into by an incapacitated person is:

- a. Void.
- b. Voidable.
- c. rescissible.
- d. Unenforceable.

It is voidable since the person involve is incapacitated which means he has no capability to decide for his own.

34. Contracts entered into in a state of drunkenness or during hypnotic spell are:

- a. Valid.
- b. Voidable.
- c. **rescissible.**
- d. Void.

35. A contract entered into by an insane person during a lucid interval is:

- a. Valid.
- b. Voidable.
- c. **rescissible.**
- d. Void.

36. Aside from fraud and undue influence, the following are the vices of consent, except:

- a. Violence.
- b. **Intimidation.**
- c. Mistake.
- d. Dealer's talk.

37. Mistake in three of the following will make a contract voidable. Which one will not?

- a. Mistake as to the substance of the thing which is the object of the contract.
- b. **Mistake as to the principal conditions which principally moved one or both parties to enter into the contract.**
- c. Mistake as to the identity or qualifications of one of the parties, which identity or qualifications have been the principal cause of the contract.
- d. Simple mistake of account.

38. D owes C the following debts: P6, 000.00 due on June 12; P6, 000.00 due on June 18; and P6, 000.00 due on June 20. All debts are unsecured except the debt due on June 20 which is secured by a pledge of D's diamond ring to C. By agreement, the benefit of the term on 4 debts was granted to C. Assuming that D has P6, 000.00 on June 18 and is ready to pay C, which of the following statements is correct?

- a. **D may apply his payment of P6, 000.00 to any of the debts due on June 12, June 15, and June 18 since they are all due as of June 18.**
- b. D may apply his payment only to the debt due on June 20 because it is the most burdensome to him.
- c. D must apply the payment proportionately to the debts due as of June 18 at P2,000.00 each.
- d. D may apply the payment to any of the four debts.

Art. 1252 in which application of payments is stated.

39. The offer made by the debtor to pay his obligation to his creditor is known as;

- a. Consignation.
- b. **Tender of Payment.**
- c. Application of payment.
- d. Dation of payment.

Art. 1256, It is the act on the part of the debtor of offering to the creditor the thing or amount due.

40. Consignation alone without any tender of payment is sufficient in the following cases, except:

- a. When the creditor is absent or unknown or does not appear at the place of payment.
- b. **When the creditor presents the title to the obligation for collection.**
- c. When without just cause, the creditor refuses to give a receipt.
- d. When two or more persons claim the same right to collect.

Art. 1256 second paragraph states the consignation alone shall produce the same effect in the following cases.

41. M owes P P10, 000.00. The obligation is evidenced by a promissory note. Subsequently, P assigned the note to A, to B, B to C, and C back to M. The obligation of M is extinguished by:

- a. Compensation.
- b. **Confusion.**
- c. Condonation.
- d. The obligation is not extinguished because there was no payment.

Confusion which takes place in the person of any of the latter does not extinguish the obligation except as regards the share corresponding to the creditor or debtor in whom the two characters concur.

42. In order that condonation may extinguish an obligation involving a movable property whose value exceeds P5, 000.00-

- a. **It is sufficient that the condonation and the acceptance are in writing, even a private one.**
- b. It is required that the condonation and the acceptance be in public instrument.
- c. The delivery of the document evidencing the debt is sufficient since the property is movable.
- d. The condonation and the acceptance may be made orally.

Art 1270 states about the condonation or remission and its requisites.

43. One of the following is not a requisite of legal compensation. Which is it?

- a. That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other.
- b. That the two debts be due.
- c. That both debts be liquidated and demandable.
- d. **That the debts are payable at the same place.**

Art. 1270 enumerates the requirements or requisites for legal compensation.

44. Henry, husband, and Wilma, wife, are legally separated. By order of the court which decreed the legal separation, Henry is obliged to give a monthly support of P10, 000.00 to Wilma payable within the first five days of the month. Wilma owes Henry P10, 000.00 by way of a business loan. On the other hand, Henry has not yet given Wilma's support of P10, 000.00 for this month. Both debts are already due. Which of the following statements is correct?

- a. Both debts are extinguished by legal compensation because both are already due.
- b. **Wilma will claim compensation but not Henry.**
- c. Henry may claim compensation but not Wilma.
- d. Neither one may claim compensation because the debts are not of the same kind.

Art. 1287 states the claim of the compensation.

45. D owes C P10, 000.00 with G as guarantor. C, on the other hand, owes D, P8, 000.00. Both debts are already due but D is insolvent. In this case-

- a. C may collect from G P10, 000.00.
- b. **C may collect from G P2, 000.00 because a guarantor can set up compensation as regards what the creditor owes the principal debtor.**
- c. C may collect nothing from G because D is insolvent.
- d. C may collect P8, 000.00.

Art. 1258 states when there is an involvement of a third person.

46. D borrowed P50, 000.00 from C. Subsequently, D proposed to C that T would assume his (D's) debt. C accepted the proposal of D. This substitution of debtor is known as-

- a. Expromision.
- b. **Delegacion.**
- c. Tradition.
- d. Dacion en pago.

delegacion takes place when the creditor accepts a third person to take place of the debtor at the instance of the latter (Art. 1293)

47. Refer to the facts in No. 46. Assume also that on due date, T could not pay because of his insolvency which was in fact subsisting but was not known to D or of public knowledge at the time that D delegated his debt. In this case-

- a. C can revive D's debts because T's insolvency already existing at the time that D delegated his debt.
- b. C can revive D's debt whether or not he (D) was aware of T's insolvency since he (D) proposed the substitution.
- c. **C cannot hold D liable because his (D's) obligation was extinguished when he was substituted by T.**
- d. The novation is void because D did not take steps to determine the solvency of T when he (D) delegated his debt.

Art. 1294 effect of the new debtors insolvency or non-fulfillment of the obligation in expromision.

48. D obliged himself to give 5 grams of “shabu” to C. Later, the parties agreed that D would instead give to C 5 sacks of rice. Which of the following statements is correct?

- a. **The novation is void because the original obligation is void, Hence, C cannot demand the delivery of 5 sacks of rice from D.**
- b. The novation is valid because the new obligation is valid. Hence, C can demand the delivery of sacks of rice from D.
- c. The original obligation although void is validated by the new obligation. Hence, C can demand the delivery of 5 sacks of rice from D.
- d. The new obligation is only voidable because D had not yet performed the original obligation at the time of novation. Accordingly, the new obligation is binding and C may demand the delivery of 5 sacks of rice from D until the new obligation is annulled by a proper action in court.

Art. 1296 effect of novation on accessory obligations.

49. On July 1, 2015, D is obliged himself to give C P50,000.00 if C will marry X on or before December 31, 2015. The condition of the obligation is a:

- a. **Positive condition.**
- b. Negative condition.
- c. Joint condition.
- d. Impossible condition.

Positive condition because it refers to an event in which there is a condition to met.

50. Refer to No. 49. Which of the following statements is incorrect?

- a. The obligation of D is demandable if C marries X on or before December 31, 2015.
- b. The obligation of D is extinguished if it is already January 1, 2016 and C has not yet married X.
- c. The obligation of D is extinguished on December 2, 2015 if X dies on the said date and C has not yet married X.
- d. **The obligation is demandable if C marries x on January 1, 2016.**

Since it is not within their condition so it it not demandable thus the contract already ineffective by dec. 31, 2015.

CONTRACT

1. A meeting of minds between two persons whereby one binds himself with respect to the other to give something or to render some service is known as:

- a. obligation.
- b. consent.
- c. **contract.**
- d. Stipulation.

It is more of a contract because of the phrase “meeting of minds between two persons”.

2. The stages of a contract according to the order of their occurrence are:

- a. birth, conception and consummation.
- b. conception, consummation and birth.
- c. **conception, birth and consummation.**
- d. consummation, conception and birth.

It should start with conception first because this is where the process of creation of a contract took place for it to have a birth and followed by consummation.

3. The elements of a contract without which a contract would not exist are known as:

- a. accidental elements.
- b. natural elements.
- c. special elements.
- d. **essential elements.**

Contract would not exist without the essential elements such as consent, object or subject matter and cause or consideration.

4. A consensual contract has the following essential elements:

- a. **consent of the contracting parties, object certain and cause or consideration.**
- b. consent of the contracting parties, object certain, cause or consideration and delivery of the object.
- c. consent of the contracting parties, object certain, cause or consideration and formalities required by law.
- d. Consent of the contracting parties, object certain, delivery of the object, and formalities required by law.

Consensual contract is a kind of contract which are perfected by the mere meeting of the minds of both parties or which perfected by mere consent.

5. A real contract has the following essential elements:

- a. consent of the contracting parties, object certain and cause or consideration.
- b. **consent of the contracting parties, object certain, cause or consideration and delivery of the object.**

- c. consent of the contracting parties, object certain, cause or consideration and formalities required by law.
- d. consent of the contracting parties, object certain, delivery of the object, and formalities required by law.

Real contracts requires delivery of the object for perfection, creation of real rights over immovable property must be written.

6. A solemn or formal contract has the following essential elements:
- a. consent of the contracting parties, object certain, and cause or consideration.
 - b. consent of the contracting parties, object certain, cause or consideration and delivery of the object.
 - c. **Consent of the contracting parties, object certain, cause or consideration and formalities required by law.**
 - d. consent of the contracting parties, object certain, delivery of the object, and formalities required by law.

Solemn or Formal contracts are contracts which require a special form for perfection and formalities required by law must be observed.

7. Elements that accompany certain contracts unless set aside or suppressed by the parties are known as:
- a. **natural elements.**
 - b. accidental elements.
 - c. essentials elements.
 - d. original elements.

Those elements which are found in a contract by its nature and presumed by law to exist.

8. The warranty against hidden defects in a contract of sale is an example of:
- a. **natural element.**
 - b. accidental element.
 - c. original element.
 - d. stipulated element.

One of the example of a natural element and also eviction in contract of sale.

9. They refer to particular stipulations of the parties in a contract.
- a. **Accidental elements.**
 - b. Natural elements.
 - c. Inherent elements.
 - d. Essential elements.

Those which exist by virtue of an agreement for the purpose of expanding, limiting, or modifying a contract such as condition, clauses, terms, modes of payment or penalties.

10. One of the following is a natural element of a sales contract.
- a. Terms of payment.
 - b. Rate of interest.

- c. Place of delivery.
- d. **Warranty against eviction.**

this is found in a contract by its nature such as warranty of hidden defects or eviction in a contract sale.

11. A contract that can stand by itself is known as:

- a. accessory contract.
- b. **principal contract.**
- c. commutative contract.
- d. Gratuitous contract.

It is the main contract that has been created by both parties.

12. A contract that does not have any special name under the law is known as:

- a. nominate contract.
- b. **innominate contract.**
- c. special contract.
- d. nominal contract.

Innominate contract evolved as a non-regulated contract variant of a regulated contract (whose content and form is regulated by statute), such as a contract of sale.

13. A contract where both parties are required to do or give something is known as a:

- a. **bilateral contract.**
- b. unilateral contract.
- c. gratuitous contract.
- d. commutative contract.

Both parties are required to do or to give which means they have a bilateral obligation.

14. A contract where the parties contemplate a real fulfilment, hence, equivalent values are given is known as:

- a. **commutative contract.**
- b. gratuitous contract.
- c. onerous contract.
- d. aleatory contract.

Commutative contract because they contemplates a real fulfilment where equivalent values are given.

15. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient provided they are not contrary to law, morals, good customs, public order or public policy. This is known as the principle of:

- a. **liberty of contract.**
- b. mutuality contract.
- c. relativity of contract.
- d. obligatory force of contract.

Principle of Liberty of contract is the freewill to establish stipulations and other condition that maybe convenient to the parties provided that is not contrary to the law.

16. The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them. This is known as the principle of:

- a. **mutuality of contract.**
- b. relativity of contract.
- c. consensuality of contract.
- d. freedom to contract.

This is known as the principle of mutuality of contract because it is not only bind to only one but to both of them, they have mutual interest and obligation.

17. Contracts take effect only between the contracting parties, their assigns and heirs, except in cases where the obligations and rights arising from the contract are not transmissible by their nature, or by stipulation or provision of law. This principle of contract is known as:

- a. **relativity of contract.**
- b. mutuality of contract.
- c. obligatory force of contract.
- d. liberty of contract.

Principle of relativity of contract when it effects only to the contracting parties and to the heirs.

18. D borrowed P500,000.00 from C. D died without having paid his loan obligation to C. He left S, his son and heir, properties worth P400,000.00.

- a. S is liable to C for P500,000.00.
- b. **S is liable to C for P400,000.00.**
- c. S is liable to C for P100,000.00.
- d. S is not liable at all because he should not be made to shoulder the obligation of his father.

S is liable to C for 400,000.00 since the property was being left for him by D which means the latter is the original owner of the property hence, it is attached to him, it should be used to pay for his obligation.

19. A contract may be enforced by or against a third person, except:

- a. in the case of stipulation pour autrui
- b. when a third person induces another to violate his contract.
- c. in case of contracts intended to defraud creditors.
- d. **when the benefit to the third person is merely incidental.**

Merely incidental which means there is no intent fault or violation of the third person.

20. The principle that contracts are perfected by mere consent is known as:

- a. consistency of contract.
- b. **consensuality of contract.**
- c. consummation of contract.
- d. mutuality of contract.

The principle of consensuality of contract that perfected by mere consent of both parties which means both agrees of

21. Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith. From perfection, the parties are bound not only to the fulfilment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law. This is known as the principle of:

- a. consummation of contract
- b. consensual quality of contract
- c. **obligatory force of contract and compliance in good faith**
- d. mutuality of contract

This refers to Art. 1159, Sincerity and honesty must be observed to prevent one party from taking unfair advantage over the other.

22. One of the following is not a real contract.

- a. pledge
- b. Commodatum
- c. Deposit
- d. **Sale**

Real contract which are perfected by the delivery of the thing subject matter of the contract such as depositum, pledge, commodatum.

23. D borrowed P100,000.00 from C. The obligation is secured by a mortgage on D's land and building. C registered the mortgage with the Register of Deeds. Thereafter, D sold the land and building to X who was not personally aware of the existence of the mortgage at the time of sale since only the photocopy of the transfer certificate of title which did not yet contain the annotation of the mortgage was shown to him. It was only when he went to the Register of Deeds to register the sale of the land and building to him that he learned of the mortgage.

- a. **C can collect from D and if D cannot pay, C can foreclose the mortgage although the land and building are now owned by X.**
- b. C can collect from D, but if D cannot pay, C cannot foreclose the mortgage because X was not aware of the existence of the mortgage at the time he bought the land and building.
- c. C cannot collect from D. He can only go after the mortgage which has given as security.
- d. C cannot foreclose the mortgage because X was not a party thereto.

C can still collect from D and since the obligation is secured with the mortgage, he has the right to foreclose the mortgage thus the registration of the deeds still on his name.

24. It is the manifestation of the meeting of the offer and the acceptance upon the thing and the cause which are to constitute the contract.

- a. Consideration
- b. Contract
- c. **Consent**
- d. Cause

This pertains to Art. 1319 which defines the consent.

25. On June 1, 2015, S offered to sell his only car to B for P100,000.00. B accepted the offer by mailing his letter of acceptance on June 10, 2015. On June 12, 2015, B revoked his previous acceptance and mailed his letter of revocation on June 15, 2015

- a. The contract was perfected on June 14, 2015 when S received B's letter of acceptance.
- b. **The contract was not perfected because at the time the acceptance was received, the parties were no longer of one mind.**
- c. The contract was perfected on June 10, 2015 when B sent his letter of acceptance.
- d. The perfection of the contract retroacts to June 1, 2015 when the offer was made.

It is not perfected since both parties does not meet with their condition simultaneously.

26. On May 1, 2015, S offered to sell a specific car to B for P500,000. B sent his letter of acceptance to S on May 8, 2015. On May 10, 2015, however, S died in a vehicular accident and his secretary received the letter of acceptance on May 12, 2015 unaware that S had already died.

- a. The contract was perfected on May 8, 2015 when B sent his letter of acceptance.
- b. The contract was perfected on May 12, 2015 on May 12, 2015 when the secretary of S received the letter of acceptance.
- c. **The contract was not perfected because the offer of S became ineffective when he died.**
- d. The contract was perfected on May 1, 2015 because the acceptance made by H on May 8, 2015 retroacts to the date of the offer.

The death of one party when it comes to a contract, once still in a process of conception it is still ineffective.

27. Three of the following instances will render an offer ineffective before acceptance is conveyed. Which one will not?
- a. Civil interdiction of either party
 - b. Insolvency of either party
 - c. Insanity of either party
 - d. **Intoxication of either party**

Intoxication of either party will not render an offer ineffective.

28. S offers to sell his car to B for P125,000.00 cash. B accepts the offer but is willing to pay only P120,000.00.

- a. The contract was perfected at the price of P120,000.00
- b. The contract was perfected at the price of P125,000.00
- c. The contract was perfected at the price of P122,500.00, the average price of the offer and the acceptance.
- d. **The contract was not perfected because the acceptance by B was qualified and it constituted a counter-offer.**

Qualified or conditional acceptance of the offer, which becomes counter offer is a reason to consider an offer ineffective.

29. P appointed A as his agent to sell P's only Honda Civic car for

P400,000.00 cash. On November 7, 2015, A, pursuant to the authority granted to him by P, offered to sell the car to B at the price of P400,000.00. B accepted the offer on November 8, 2015 by sending a letter of acceptance to A, which letter of acceptance was received by A on November 9, 2015. On November 10, 2015, A informed P and B had accepted the offer.

- a. The contract was perfected on November 8, 2015 when B sent his letter of acceptance
- b. **The contract was perfected on November 9, 2015 when A received the letter of acceptance.**
- c. The contract was perfected on November 10, 2015 when A notified P, the true owner of the car that B had accepted the offer.
- d. The contract was perfected on November 7, 2015 since the acceptance by B retroacts to the date of the offer.

It is considered perfected since both parties binds themselves reciprocally in favour of one another.

30. On July 1, 2015, Serrano offered to sell his only Mercedes Benz car for P1,000,000.00 to Benitez, Serrano stated that he was giving Benitez up to July 31, 2015 to make up his mind whether to buy the car or not. On July 25, 2015, Serrano personally went to Benitez to inform him that he was no longer willing to sell the car unless the price was increased in buying the car for the said amount of P1,400,000.00.

- a. Benitez may compel Serrano to sell to him the car for P1,000,000.00
- b. **Serrano may validly withdraw his offer to Benitez because the option was not founded upon a consideration.**
- c. Serrano may not withdraw his offer until after the lapse of the option period that he gave to Benitez.
- d. The increased in the price made by Serrano was not valid because it was made within the option period.

Since Serrano withdraw his offer prior to the date of the obligation that the stipulation says that he may change his mind before the obligation arises.

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- d. The increased in the price made by Serrano was not valid because it was made within the option period.

The situation is considered valid because he has still the right to his possession and has not yet entered into a stipulation.

PARTNERSHIP

1. Which of the following statements is false when no one among the partners was appointed as manager?
 - a. Each partner will be considered as agent of the partnership.
 - b. Any one may make an important alteration in the immovable property of the partnership without the consent of the others provided it is useful to the partnership.
 - c. In case the act of one partner is opposed by another, the decision of the majority of the partners will prevail.
 - d. In case of a tie in the voting, the tie shall be resolved by the vote of the partner owning the controlling interest.

Partnership- is a contract where two or more persons bind themselves to contribute money, property or industry to a common fund with the intention of dividing the profits among themselves.

2. The following statements pertain either to a partner appointed as manager in the articles of partnership or through a document after the formation of the partnership.
 - I. He may be removed as manager only for a just or lawful cause by the vote of the partners owning the controlling interest.
 - II. He may be removed as manager with or without just or lawful cause by the vote of the partner owing the controlling interest.
 - III. He may perform all acts of administrators despite the opposition of his partners provided he is in good faith.
 - IV. He may perform all acts of administration in good faith but opposing partners may resort to his removal if he persists.

Based on the foregoing:

- a. I and III pertain to a partner appointed as manager in the articles of partnership.
- b. I and III pertain to a partner appointed as manager through a document after the formation of the partnership.
- c. II and III pertain to a partner appointed through a document after the formation as manager in the articles of partnership.
- d. I and IV pertain to a partner appointed as manager in the articles of partnership.

Characteristics of a contract of a partnership

1. Consensual- it is perfected by mere consent.
2. Principal- it does not depend upon any other contract for its validity or existence.
3. Bilateral or multilateral- it is entered into by two or more persons whose rights and obligations are reciprocal.
4. Nominate- it has a special name given to it by law. (Art.1767)
5. Preparatory- it is a means by which other contracts will be entered into as the partnership pursues its business.

6. Onerous- the partners contribute money, property, or industry to a common fund. (Art. 1767)
3. Campos, Urbano, Tamesis and Encanto are partners in CUTE Company each one contributing P300,000.00 except for Encanto who is an industrial partner. The partners agreed that Campos shall be exempted from liability to third persons. Three years of continued losses after the formation of the partnership resulted in unpaid partnership liabilities to third persons amounting to P500,000.00. Partnership assets have also been reduced to P200,000.00. From whom may third persons collect the partnership debts?
 - a. From the partnership assets of P200,000.00; thereafter, from the partners for their separate assets at P100,000.00 each except Campos who was exempted from liability to third persons by agreement.
 - b. From the partnership assets of P200,000.00; thereafter, from the partners for their separate assets at P100,000.00 each except for Encanto since an industrial partner does not share in the losses.
 - c. From the partnership assets of P200,000.00; thereafter, from all the partners for their separate assets at P75,000.00 each including Campos and Encanto.
 - d. From the partnership assets of P200,000.00; thereafter, from Urbano and Tamesis only for their separate assets at P150,000.00 since Campos was exempted from liability by agreement, while Encanto, being an industrial partner is not liable for losses.

Essential requisite of a partnership

1. There must be a valid contract.
 2. There must be a mutual contribution of money, property and industry to a common fund.
 3. It must have a lawful object or purpose.
 4. The partnership must be established for the common benefit or interest of the partners which is to obtain profits and divide the profits among the partners.
4. The partnership will bear the risk of the loss of three of the following things. Which is the exception?
- a. Things contributed to be sold.
 - b. Fungible things or those that cannot be kept without deteriorating.
 - c. Things contributed so that only their use and fruits will be for the common benefit.
 - d. Things brought and appraised in the inventory.

Where the capital of the partnership is P3,000.00 or more in money or property

- a. The partnership contract must be in a public instrument, and
 - b. Registered with the Securities and Exchange Commission (SEC). (Art. 1771)
5. A partner's interest in the partnership is his share of the profits and surplus which he may assign to a third person. Which of the following statements concerning such right is correct.
- a. The conveyance of a partner's interest will cause the dissolution of the partnership.
 - b. The assignee becomes a partner.
 - c. The assignee has a right to interfere in the management of the partnership business.

- d. The assignee has the right to receive the profits which the assigning partner would otherwise be entitled to.

Effect if the above requirements are not complied with

- a. The partnership contract is still valid. Accordingly, the partnership still acquires juridical personality. (Art. 1768, 1772)
 - b. The liability of the partnership and the members thereof to third persons are not affected. (Art. 1772)
6. A partner can engage in business for himself without the consent of his co - partners if he is:
- a. a capitalist partner whether or not the business he will engage in is of the same kind as or different from the partnership business.
 - b. an industrial partner whether or not the business he will engage in is of the same kind as or different from the partnership business.
 - c. a capitalist partner and the business he will engage in is of a kind different from the partnership business.
 - d. an industrial partner and the business he will engage in is of a kind different from the partnership business.

A capitalist partner does not prohibited from engaging in enterprises in his own behalf during the period that he is a member of a firm but permits him to carry on a business or activity not connected or competing with that of the partnership.

7. The following statements pertain either to a partner appointed as manager in the articles of partnership or through a document after the formation of the partnership.
- V. He may be removed as manager only for a just or lawful cause by the vote of the partners owning the controlling interest.
 - VI. He may be removed as manager with or without just or lawful cause by the vote of the partner owing the controlling interest.
 - VII. He may perform all acts of administrators despite the opposition of his partners provided he is in good faith.
 - VIII. He may perform all acts of administration in good faith but opposing partners may resort to his removal if he persists.

Based on the foregoing:

- a. I and III pertain to a partner appointed as manager in the articles of partnership.
- b. I and III pertain to a partner appointed as manager through a document after the formation of the partnership.
- c. II and III pertain to a partner appointed through a document after the formation as manager in the articles of partnership.
- d. I and IV pertain to a partner appointed as manager in the articles of partnership.

See Article 1800

8. Campos, Urbano, Tamesis and Encanto are partners in CUTE Company each one contributing P300,000.00 except for Encanto who is an industrial partner. The partners agreed that Campos shall be exempted from liability to third persons. Three years of continued losses after the formation of the partnership resulted in unpaid partnership liabilities to

third persons amounting to P500,000.00. Partnership assets have also been reduced to P200,000.00. From whom may third persons collect the partnership debts?

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- b. From the partnership assets of P200,000.00; thereafter, from the partners for their separate assets at P100,000.00 each except for Encanto since an industrial partner does not share in the losses.
- c. From the partnership assets of P200,000.00; thereafter, from all the partners for their separate assets at P75,000.00 each including Campos and Encanto.
- d. From the partnership assets of P200,000.00; thereafter, from Urbano and Tamesis only for their separate assets at P150,000.00 since Campos was exempted from liability by agreement, while Encanto, being an industrial partner is not liable for losses.

According to Article 1816, all partners, including industrial ones, shall be liable pro rata with their property and after all the partnership assets have been exhausted.

9. The partnership will bear the risk of the loss of three of the following things. Which is the exception?
 - a. Things contributed to be sold.
 - b. Fungible things or those that cannot be kept without deteriorating.
 - c. Things contributed so that only their use and fruits will be for the common benefit.
 - d. Things brought and appraised in the inventory.

See Article 1795

11. The change in the relation of the partners caused by a ceasing to be associated in the carrying on the business known as:
 - a. Termination of the partnership.
 - b. Winding up of partnership affairs.
 - c. Liquidation of the partnership business.
 - d. Dissolution of the partnership.

See Article 1828

12. What is the order of payment of liabilities of a dissolved general partnership using the code number representing each liability?
 - I. Those owing to partners other than for capital and for profits.
 - II. Those owing to creditors other than partners' capital.
 - III. Those owing to partners in respect of profits.
 - IV. Those owing to partners in respect of capital.
 - a. I, II, III, IV
 - b. II, I, IV, III

- c. II, I, III, IV
- d. I, II, IV, III

The order of payment of a partnership assets shall be applied to the satisfaction of the liabilities of the partnership. See Article 1839

13. In a limited partnership where there are 4 partners:
- a. All the partners must be limited partners.
 - b. The number of limited partners must be equal to the number of general partner, that is, 2:2.
 - c. The number of limited partners must be greater than the number of general partners, that is, 3:2.
 - d. **It is enough that there is one limited partner, rest may all be general partners.**

Limited partnership must have at least one general partner and at least one limited partner.

14. A limited partner may contribute:
- a. **Money and / or property.**
 - b. Money and /or services.
 - c. Property and / or services.
 - d. Services only.

A limited partner may contribute money and/or property to the partnership but who takes no part in managing the partnership.

15. A limited partner shall be liable as general partner in all of the following cases. Which one is the exception?
- a. When he is a general-limited partner as stated in the certificate.
 - b. When he takes part in the control of the business.
 - c. When he participates in the management of the business.
 - d. **When his surname which appears in the partnership name is also the surname of a general partner.**

Obligations of a limited partner (Art. 1846).

16. Which of the following omissions will make a partnership formed as a limited partnership liable as a general partnership?
- I. The certificate is not signed and sworn to by the partners.
 - II. The certificate is not registered with the Securities and Exchange Commission.
 - III. The partnership name does not include the word "Limited" or "Ltd.", its abbreviation, in the certificate.
- a. I and II.
 - b. II and III.
 - c. I and III.
 - d. **I, II and III.**

Requirements for formation of limited partnership (Art. 1844).

16. A person admitted to all the rights of a limited partner who has died or who has assigned his interest in the partnership is known as:

- a. An ostensible partner.
- b. A liquidating partner.
- c. **A substituted limited partner.**
- d. A general-limited partner.

Ostensible partner is one who is active and known to the public.

Liquidating partner takes the charge of the winding up of the affairs of the partnership.

General-Limited partner has all the rights and powers and subject to all the restrictions of a general partner.

17. If the assignee does not become the partner referred to in the preceding number, his rights do not include:

- a. The receipt of the assignor's share of the profits.
- b. The receipt of the assignor's other compensation by way of income.
- c. The return of the assignor's contribution.
- d. **The inspection of the partnership books or account of partnership transactions.**

Assignment of limited partner's interest (Art. 1859).

18. What is the order of payment of liabilities of a dissolved limited partnership using the code number representing each liability?

- I. Those owing to general partners other than for capital or for profits.
 - II. Those owing to creditors including limited partners, except those to limited partners account of their contributions and general partners.
 - III. Those owing to limited partners by way of their share in the profits and other compensation by way of income.
 - IV. Those owing to limited partners in respect to the capital of their contributions.
 - V. Those owing to general partners in respect of capital.
 - VI. Those owing to general partners in respect of profits.
- a. I, II, III, IV, V, VI.
 - b. II, I, III, IV, V, VI.
 - c. II, I, III, IV, V, VI.
 - d. **II, III, IV, I, VI, V.**

Order of payment of liabilities (Art. 1863).

19. Which of the following will not cause the automatic dissolution of a limited partnership?

- a. Death of a general partner.
- b. Death of a limited partner.
- c. Insolvency of a general partner.
- d. **Insanity of a general partner.**

Insanity of a general partner would not cause automatic dissolution of a limited partnership (Art. 1860).

20. One of the distinctions between a partnership and a corporation is that a partnership:

- a. May be formed by one person.
- b. Is created by operation of law.

- c. Acts through a board of directors.
- d. **May exist for an indefinite period.**

A contract of partnership has an indefinite life of existence.

CORPORATION

1. The articles of incorporation differ from the by-laws in that the articles of incorporation are:
 - a. the rules of action adopted by a corporation for its internal government.
 - b. adopted before or after incorporation.
 - c. **a condition precedent in the acquisition by a corporation of juridical personality.**
 - d. approved by the stockholders if adopted after incorporation.

The articles of incorporation differs from the by-laws because by-laws are rules and regulations to be followed inside the corporation while the articles of incorporation should be followed in the creation of the corporation.

2. The following may be the consideration of the shares of stock of corporation, except :
 - a. actual cash paid to the corporation.
 - b. previously incurred indebtedness of the corporation.
 - c. amounts transferred from unrestricted retained earnings.
 - d. **service to be performed by a lawyer on the proposed increase in capital stock of the corporation.**

Not included in considering the shares of stock in a corporation because the service of the lawyer does not directly affect the increase of the shares of stock in the corporation.

3. A certificate of stock is distinguished from share of stock in that a share of stock :
 - a. is the written evidence of a stockholder's interest in the assets and management of a corporation.
 - b. is tangible personal property.
 - c. **is one of the unit into which the capital stock is divided.**

d. may not be issued if the subscription has not been fully paid.

The certificate of stock is where the unit of shares of stock is written. The certificate of stock is a tangible representation while the share of stock is intangible.

4. The articles of incorporation of Acme Corporation provide for the issuance of 100,000 shares without par value and an issued price per share of P 10.00. At the time of incorporation, the subscription and paid-up capital should not be less than :
- P 250,000 and P 62,500, respectively.
 - P 1,000,000.00 and P 250,000.00, respectively.
 - P 250,000.00 and P 250,000.00, respectively.**
 - P 250,000.00 and P 125,000.00, respectively.

The amount paid must be at least 25% of the ownership term of the subscription but in no case must it be lower than P 5,000.00 on the content of the articles of incorporation.

5. Their names are mentioned in the articles of incorporation as originally forming the corporation and are signatories thereof :
- Corporators
 - Stockholders
 - Incorporators**
 - Members

Incorporators are originally forming and composing the corporation which required their names to be mentioned in the articles of incorporation.

6. A corporation acquires juridical personality :
- upon filing of the articles of incorporation.
 - upon filing of the by-laws.
 - upon the issuance of certificate of incorporation.**
 - within 30 days from the receipt of the notice of the issuance of the certificate of incorporation .

According to the book upon the issuance of the certificate of incorporation will be also the granting of the juridical personality of the corporation by the operative acts and that's the time the operation commences.

7. A delinquent stockholder is not entitled to the following rights, except the right :
- to be voted.
 - to vote or be represented in the meetings of stockholders.
 - to dividends.**
 - He is not entitled to all the rights of a stockholder.

The investments that he has will create the dividends.

8. A, B, C, D, E, F and G are the duly elected directors for 2014 of Excellent Corporation whose articles of incorporation provide for 7 directors. On August 1, 2014, Directors A, B, C, D, and E met to fill two vacancies in the board brought by the valid removal of F for disloyalty to the corporation and the death of G. In the said meeting, the remaining directors voted for X to replace F, and Y, a son of G, replace his father. Both X and Y are owners of at least one share of stock of the corporation. The election of X and Y by the remaining directors is :
- valid for both X and Y.
 - not valid for both X and Y.
 - valid with respect to X ; not valid with respect to Y.

- d. **not valid with respect to X ; valid with respect to Y.**

It is not valid for X to replace F unless he acquires the share of F in the corporation but on the perspective of Y it is valid because he was the successor of the late director, G.

9. In the meeting of the board of directors of Grand Corporation, a construction company, held on August 31, 2014, directors A, B, C, D and E were present among the 9 directors. The meeting had for its agenda the following :

I. The appointment of a new treasurer

II. The approval of the contract for the purchase of cement worth P 50, 000.00 from X Construction Supplies.

When the voting took place, directors A, B, C and D voted for the election of Y as the new treasurer ; and directors A, B and C voted for the approval of the contract with X Construction Supplies.

- a. Both corporate acts are valid.
b. Both corporate acts are not valid.
c. The election of Y as the new treasurer is valid ; the approval of the contract with X Construction Supplies is not valid.
d. **The election of Y as the new treasurer is not valid ; the approval of the contract with X Construction Supplies is valid.**

The election of Y as a new treasurer is invalid because Y is not one of the director/stockholder in the corporation but the approval of the contract with X Construction Supplies is valid because with that it will help the operation of the corporation.

10. Under this theory, the nationality of a corporation is that of the under whose law it was formed.
a. Control test.
b. **Incorporation test.**
c. Domiciliary test.
d. Grandfather rule.

Incorporation test is a test that determines the nationality of a corporation follows that of the country under whose laws it was incorporated.

11. A corporation created in strict compliance with all the legal requirements and whose right to exist as a corporation cannot be successfully attacked in a direct proceeding for that purpose by the State is a :

- a. **de jure corporation.**
b. de facto corporation.
c. corporation by estoppel.
d. corporation by prescription.

Corporation created in strict compliance with all the legal requirements is de jure corporation.

12. Stock dividends differ from cash dividends in that stock dividends :
a. do not increase the legal capital.
b. involve disbursements of corporate funds.
c. **require the approval of both the board of directors and the stockholders.**

- d. once received by the stockholders, are beyond the reach of corporate creditors.

Stock dividends differ from cash dividend because stock dividend increases the legal capital of the corporation which should need to be controlled by both the BOD and the stockholders.

13. The subscriber of unpaid shares which are not delinquent shall be entitled to the following rights, except the right to :

- a. vote.
- b. inspect corporate books.
- c. **a stock certificate.**
- d. dividends.

Stock certificates are only entitled to stockholders.

14. These statements pertaining to the right of a stockholder to inspect books and records of a corporation are presented to you for evaluation :

- I. The right maybe delegated to an agent.
 - II. The right may be denied if in the past, the stockholder improperly used the information which he obtained from the books and records of another corporation of which he is also a stockholder.
- a. **Both statements are true.**
 - b. Both statements are false.
 - c. Statement I is true ; Statement II is false.
 - d. Statement I is false ; Statement II is true.

The book have, stockholder has the right to delegate agent and also his right may be denied if in the past, the stockholder improperly used information when obtaining the books of another corporation of which he is also a stockholder.

15. Under this doctrine, the separate personality of a corporation may be disregarded if it is used for fraudulent or illegal purpose or to escape the faithful compliance of an obligation :

- a. Trust fund doctrine
- b. **Doctrine of piercing the veil of corporate entity**
- c. Doctrine of corporate oppurtunity
- d. Doctrine of limited capacity

Separate personality of a corporation may be disregarded if it is used for fraudulent or illegal purpose or to escape the faithful compliance of an obligation.

16. Consolidation differs from merger in that in consolidation :

- a. The surviving corporation shall enjoy all the rights, powers, and attributes of a corporation under the Corporation Code.
- b. The existing liabilities of the consituent corporations shall be assumed by the surviving corporation.
- c. **The corporate existence of all the constituent corporations shall be extinguished and a new corporation emerges.**
- d. The surviving corporation shall possess all the rights, priveleges, immunities, and franchises of the constituent corporations.

Consolidation is a union of 2 or more corporations whereby the existence of the constituent corporation is terminated and a new one is created.

17. The right of a stockholder to demand payment of the fair value of his shares when he dissents from certain corporate acts is known as :
- pre-emptive right
 - appraisal right**
 - redemption right
 - appreciation right

Appraisal right is the right given to a dissenting stockholder to demand payment of the fair value of his share.

18. These statements pertaining to the meetings of directors are presented to you for evaluation :
- Directors or trustee may attend or vote by proxy at board meetings.
 - The articles of incorporation or the by-laws of a corporation may provide for a greater majority for its quorum during the meetings of the board of directors.
- Both statements are true.
 - Both statements are false.
 - Statement I is true ; Statement II is false.
 - Statement I is false ; Statement II is true.**

Statement I is false because each director or trustee is required to exercise his personal judgment and he cannot delegate his duties or assign his powers to others. However, Statement II is true because by-laws is the rules of actions adopted by the corporation for its internal regulations such as the required quorum in meetings of stockholders.

19. A stock that is issued without consideration or below par value or the issued price is known as :
- watered stock**
 - delinquent stock
 - redeemable stock
 - preferred stock

Watered stock is stocks issued for no value or for value less than its equivalent either in cash, property, services, or stock dividends.

20. A non-voting stock may vote in the following corporate acts, except in case of :
- approval of the compensation**
 - merger or consolidation
 - increase or decrease in capital stock
 - sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of corporate property.

Approval of the compensation of directors

SALES

1. A contract whereby one of the contracting parties obligates himself to transfer the ownership of and to deliver a determinate thing and the other to pay therefor a price certain in money or its equivalent is a contract of:
 - a. barter
 - b. sale
 - c. dacion en pago
 - d. mortgage

Answer: Refer to Article 1458.

2. The following are essential elements of a contract of sale, except:
 - a. Consent of the contracting parties.
 - b. Subject matter which should be determinate.
 - c. Price which is certain in money or its equivalent.
 - d. Warranty against eviction and against hidden defects.

Answer: The essential elements of a contract of sale are the following.

- a. Consent
 - b. Object /subject matter
 - c. Cause / consideration
3. The following are the characteristics of a contract of sale, except:
 - a. Principal, which means that a contract of sale can stand by itself.

- b. **Real, which requires the delivery of the object of the contract of sale for its perfection.**
- c. Onerous, where the rights are acquired in exchange of a valuable consideration.
- d. Bilateral, which means that both parties are bound reciprocally to each other.

Answer: The following are the characteristics of a contract of sale.

- a. Consensual
- b. Bilateral
- c. Onerous
- d. Commutative
- e. Nominate
- f. Principal

4. One of the following characteristics of dacion en pago is also a characteristics of a contract of sale. Which is it?
- a. There is a pre-existing credit.
 - b. Obligations are extinguished.
 - c. There is less freedom in fixing the price.
 - d. **Ownership of the object is transferred to the other party.**

Answer: Dacion en pago is a special form of payment where the ownership of property is transferred to his creditor to pay a debt in money.

5. The following are characteristics of a contract of sale except for one which refers to payment by cession. Which characteristics refers to payment by cession?
- a. There is no pre-existing credit.
 - b. The cause or consideration is the price.
 - c. There is more freedom in fixing the price.
 - d. **Assignee of the property acquires the right to sell the thing but not the ownership thereof.**

Answer: Payment by cession is the abandonment or assignment by the debtor of all his property in favour of his creditors so that the latter may sell them and recover their claims out of the proceeds.

6. The following items pertain to either a contract of sale or a contract to sell.
- I. Ownership of the thing sold is transferred upon delivery.
 - II. Ownership of the thing is transferred to the buyer at some future time.
 - III. The risk of loss is on the buyer.
 - IV. The risk of loss is on the seller.

Based on the above data, which of the following is correct?

- a. Items I and III pertain to a contract to sell.
- b. Items II and III pertain to a contract to sell.
- c. Items II and IV pertain to a contract of sale.
- d. **Items I and III pertain to a contract of sale.**

Answer: Refer to Article 1477 and Article 1480.

7. One of the following is not a requisite of the object of a contract of sale. Which is it?

- a. It must be within the commerce of men.
- b. It must be licit.
- c. It must be determinate or determinable.
- d. **Vendor must have the right to transfer the ownership of the thing at the time of sale.**

Answer: Requisites of object of the contract of sale

- a. It must be within the commerce of men
- b. it must be determinate
- c. It must be licit; it must not be contrary to law, morals, good customs, public order /public policy.

8. The following items pertain to either emptio rei speratae or emptio spei.
- I. The sale of a future thing.
 - II. The sale of hope or expectancy.
 - III. The sale of a present thing.
 - IV. The thing sold must come into existence.

Based on the above information, which of the following is correct?

- a. Items I and II pertain to emptio rei speratae.
- b. **Items II and III pertain to emptio spei.**
- c. Items II and III pertain to emptio rei speratae.
- d. Items III and IV pertain to emptio spei.

Answer: Emptio spei deals with a present thing and in emptio spei, the sale produces effects even if the thing hoped for does not come into existence.

9. Santiago sells to Bermejo 500 sacks of rice at P1,000.00 per sack from the stock then stored in the warehouse of Santiago. Unknown to the parties, the warehouse contains only 480 sacks of rice. What is the status of the contract between Santiago and Bermejo?
- a. The sale is void since the quantity available is less than the quantity sold.
 - b. The sale is valid up to 480 sacks of rice but void as to the deficiency of 20 sacks of rice.
 - c. **The entire sale is valid up to 500 sacks of rice. Bermejo becomes the owner of the whole stock available and Santiago must deliver the deficiency of 20 sacks of rice.**
 - d. The sale is valid up to 480 sacks of rice but rescissible as to the deficiency of 20 sacks of rice by reason of damage suffered by Bermejo.

Answer: One of the rules that shall be observed if the quantity sold is different from the quantity of the mass is: if the quantity of the mass is less than the quantity sold, the buyer becomes the owner of the whole mass, with the seller being bound to make good the deficiency from goods of the same kind and quality, unless a contrary intent appears. (Art. 1464)

10. Somera sells to Buenviaje at P50 per gallon 300 gallons of gasoline stored in his truck's tank which, unknown to the parties, contains 500 gallons gasoline. What is the status of the contract of sale between Somera and Bermejo?

- a. The sale is void because the quantity available is more than the quantity sold.
- b. The sale is valid up to 500 gallons of gasoline. Buenviaje must pay for the additional 200 gallons of gasoline.
- c. **The sale is valid up to 300 gallons of gasoline. Buenviaje becomes the owner of 3/5 of the whole stock, while Somera becomes the owner of 2/5 thereof.**
- d. The sale is rescissible because Somera will suffer lesion of more than $\frac{1}{4}$ of the value of the whole stock.

Answer: One of the rules that shall be observed if the quantity sold is different from the quantity of the mass is: if the quantity, i.e., number, weight or measure, of the mass is more than the quantity sold, the parties shall become co-owners of the mass. (Art. 1464)

11. San Manuel Corporation, which maintains professional basketball team, entered into a contract with Armstrong Rubber Company for the latter to provide a pair of rubber shoes to the former's two imported basketball players, Charles Jordan and Michael Barkley. Armstrong Rubber Company was instructed to make a pair for either or both players in case the company did not manufacture shoes of their size. No pair was, however, immediately available for both the players. Charles Jordan, who is 6'5 tall and wears size 12 rubber shoes, was given a pair the following day from the 300 pairs that Armstrong was in the process of manufacturing for its customers at the time the orders were received. Michael Barkley, who is 7' tall and wears size 18 shoes, was provided three days later, with a pair that was specially made for him since Armstrong does not make shoes of his size. What kind of contracts were entered into for the shoes provided to the two basketball players?
 - a. The contract for the pair of shoes provided to Charles Jordan is a contract for a piece of work, while that for Michael Barkley is a contract for sale.
 - b. **The contract for the pairs of shoes provided to Charles Jordan is a contract of sale, while that for Michael Barkley is a contract for a piece of work.**
 - c. Both contracts are contracts of sale.
 - d. Both contracts are contracts for a piece of work.

Answer: Refer to Article 1467.

12. S and B entered into a contract whereby S transferred to B a specific car for the price of P200,000.00 while B gave to S P90,000.00 in cash and a diamond ring worth P110,000.00. The heading of the written contract signed by the parties reads "Contract of Sale".
 - a. The contract is void because the intention of the parties is void since the value of the diamond ring is more than the monetary consideration given.
 - b. **The contract is a valid contract of sale as intended by the parties regardless of whether the monetary consideration is more or less than the value of the property consideration.**
 - c. The contract is a valid contract of barter since the value of the property given is more than the monetary consideration. The intention of the parties is immaterial.
 - d. The contract is partly a contract of barter and partly a contract of sale.

Answer: The contract is valid because it is one of the essential requisites of a contract of sale which is the cause or consideration which refers to the price certain in money or its equivalent.

13. The price in a contract of sale is certain, except:
- When the parties have fixed or agreed upon a definite amount.
 - If the price is certain with reference to another thing certain.
 - If the fixing of the price is left to the discretion of one of the contracting parties and the price fixed is not accepted by the other party.**
 - If the price fixed is that which the thing sold would have on a definite day or in a particular exchange or market.

Answer: The price is considered certain under the following rules:

- If the parties have agreed upon a definite amount for the sale.
 - If it be certain with reference to another thing certain.
 - If the determination of the price is left to the judgement of a specified person or persons
 - If the price fixed is that which the thing sold would have on a definite day, or in a particular exchange or market, or when an amount is fixed above or below the price on such day, or in such exchange or market, provided said amount is certain.
14. On January 1, S orally sold to B a specific ring for P450.00. The parties agreed that S shall deliver the ring to B on January 5, while B shall pay the price on January 7.
- The contract is perfected on January 5, when the ring is delivered by S to B.
 - The contract is perfected on January 1, when the parties had a meeting of minds on the object and the price.**
 - The contract is perfected on January 7, when the price is paid, since both parties would by then have performed their obligations in the contract.
 - There is no perfected contract because the sale was made orally.

Answer: Refer to Article 1475.

15. A sum of money paid, or a thing delivered upon the making of a contract for the sale of goods, to bind the bargain, the delivery and acceptance of which makes the final assent of both parties to the contract.
- Option money
 - Earnest money**
 - Reservation money
 - Down payment

Answer: Refer to Article 1475.

16. S orally offered to sell a certain diamond ring to B for P50,000.00. B accepted the offer and to prove that he was in earnest, he gave S P1,000.00. The parties agreed that the delivery of the ring and the payment of the price would be made 30 days later. On due date:
- S may collect from B P50,000.00.
 - S may collect from B P49,000.00.**
 - S cannot enforce payment because the contract was not reduced to writing.

- d. S cannot enforce payment because there was no contract of sale yet.

Answer: The situation given pertains to the concept of earnest money. Earnest money constitutes an advance payment, it must be deducted from the total price. When earnest money is given, the buyer is bound to pay the balance. (see Art. 1482)

17. On June 1, 2015, S sold to B 50 units of machines which were scheduled to arrive from Japan the following day on board the vessel "MT Nippon Maru". The sale was evidenced by an invoice identifying each machine by serial number. Each machine was priced at P10,000.00. Unknown to the parties, 30 units were damaged beyond repair by seawater on May 31, 2015. Based on the foregoing, which of the following statement is incorrect?
- a. B may rescind the whole contract.
 - b. B may demand delivery of the remaining 20 units and pay the price therefor.
 - c. S may require payment of the whole shipment from B since S was not aware of the damaged caused on the machines at the time of sale.
 - d. S has no option to rescind the whole contract or require payment of the remaining 20 units.

Answer: Refer to Article 1494.

18. It refers to the delivery of the thing sold from hand to hand in case of movables, or the taking of the possession with respect to immovable, in the presence and with the consent of the vendor.
- a. Actual or real delivery
 - b. Traditio constitutum possessorium
 - c. Traditio longa manu
 - d. Traditio brevi manu

Answer: Refer to Article 1497.

19. On May 1, 2015, S sold to B through a private instrument 20 sacks of corn stored in the only warehouse of S. On May 10, 2015, S delivered the keys to the warehouse to B. The delivery made by S to B is known as:
- a. Constructive delivery by legal formalities.
 - b. Symbolic delivery by traditio clavium.
 - c. Traditio longa manu
 - d. Traditio brevi manu

Answer: Constructive delivery is symbolic when, to effect the delivery, the parties make use of a token symbol to represent the thing delivered. The delivery of the key where the thing sold is stored or kept is equivalent to the delivery of the thing because they represents the thing. (see art. 1498)

20. Delivery of incorporeal property may be made through any of the following means, except:
- a. Execution of a public document.
 - b. Placing the titles of ownership in the possession of the vendee.
 - c. Use by the vendee of his rights, with the debtor's consent.
 - d. Execution of private instrument.

Answer: In case of incorporeal things, delivery is effected:

- a. By the execution of a public instrument
- b. When that mode of delivery is not applicable, by the placing of titles of ownerships in the possession of the vendee; or
- c. By allowing the vendee to use his rights as new owner with the consent of the vendor.

21. One of the following statements on the transfer of ownership of the thing in “sale on trail” is incorrect. Which is it?
- a. Ownership of the thing is transferred to the vendee when he signifies his approval or acceptance to the vendor.
 - b. Ownership of the thing is transferred to the vendee when he does an act adopting the transaction.
 - c. Ownership of the thing is transferred to the vendee if the time fixed for the return of the thing has expired and the vendee retains the thing without giving notice of rejection or acceptance to the vendor.
 - d. **Ownership of the thing is transferred to the vendee upon delivery.**

Answer: In “sale on trial”, the ownership remains in the seller until the buyer signifies his approval or acceptance to the seller. Answer letter d pertains to “sale or return”

22. On March 1,2015, S sold and delivered to B a television set for P10,000.00 “on sale or return” giving B up to March 16,2015 within which to return the television set or pay the price. On March 10,2015, the television set was burned through no fault of B. Based on the foregoing, which of the following statements is incorrect?
- a. B must pay the price of the television set.
 - b. **S must bear the loss since the time for the return of the television set had not yet expired.**
 - c. The ownership of the television set was transferred to B upon delivery to him.
 - d. B must bear the loss of the television set.

Answer: In “sale or return” the risk of loss or injury rest upon the buyer not by the seller.

23. In one of the following cases, delivery of the goods to a carrier for the purpose of transmission to the buyer transfers ownership to the latter. Which one is it?
- a. When by the terms of the bill of landing, the goods are to be delivered to the seller or his agent.
 - b. When by the terms of the bill of landing, the goods are to be delivered to the order of the buyer or his agent but the seller retains the bill of landing.
 - c. When the seller draws a bill of exchange on the buyer for the price of the goods and transmits such bill of exchange and the bill of landing to the buyer to secure acceptance or payment of the bill of exchange and the buyer dishonours the bill of exchange.
 - d. **When the owner does not reserve the right of possession or ownership of the thing sold upon delivery to the carrier.**

Answer: Refer to Article 1503.

24. In a contract of sale of personal property the price of which is payable in installments, the vendor may exercise any of the following remedies, except to:

- a. Exact fulfillment of the obligations, should the vendee fail to pay any number of installments.
- b. Cancel the sale, should the vendee's failure to pay cover two or more installments.
- c. Foreclose the chattel mortgage on the property if the vendee's failure to pay cover two or more installments and recover any deficiency after the foreclosure sale if they have stipulated it.
- d. Foreclose the chattel mortgage on the property if the vendee's failure to pay cover two or more installments but he may no longer recover any deficiency after the foreclosure sale.

Answer: Refer to Article 1484.

25. Baldomero bought a residential house and lot from Sta. Ana Realty for P250,000.00 giving a down payment of P10,000.00 and promising to pay the balance of P240,000.00 in 20 years in monthly installments of P1,000.00. After paying 72 installments, Baldomero defaulted in the payment of the 73rd installments and subsequent ones. Despite the grace period he had earned, he was not able to make any further payments. Accordingly, Sta. Ana Realty cancelled the sale. How much cash surrender value is Baldomero entitled to receive?
- a. P45,100.00
 - b. P39,600.00
 - c. P36,000.00
 - d. P41,000.00

Answer: In the sale of real property in instalment, given the rights of the buyer. Grace period to pay instalment in case of default. If at least 2 years of instalments has been paid at the time of default, one of which:

if the contract is cancelled, he shall be entitled to the refund of the cash surrender value of the payments on the property equivalent to 50% of the total payments made, and after 5 years of instalments, an additional 5% every year but not to exceed 90% of the total payments made.

26. S stole a ring belonging to O. Subsequently, the ring was offered for sale at a public auction where X, who was not aware that the ring was stolen, bought it. A few weeks later, O saw the ring and recognized it as his. Based on the foregoing information, which of the following statements is correct?
- a. O may recover the ring from X without reimbursing X since O was unlawfully deprived of the ring.
 - b. O may recover the ring from X but he has to reimburse X since X acquired title to the ring.
 - c. O may no longer recover the ring even if he is willing to reimburse X.
 - d. X did not acquire title to the ring since the auctioneer had no valid title thereto.

Answer: O being the original owner of the ring stolen, has the right to recover it from X. However O has to reimburse X since X acquired title to the ring in good faith.

27. Where the seller of goods has a voidable title thereto, but his title has not been avoided at the time of the sale, the buyer acquires title to the goods. Such acquisition of title has the following requisites, except the:
- Buyer must have bought the goods in good faith.
 - Buyer must have bought them for value.
 - Buyer bought them without notice of the seller's defect of title.
 - Party from whom the seller obtained the goods must ratify the sale.**

Answer: D isn't a requisite for acquisition of title.

28. An unpaid seller has the following rights, except:
- A lien on the goods or the right to retain them for the price while he is in possession of them.
 - In case of insolvency of the buyer, a right of stopping the goods in transitu after he has parted with the possession of them.
 - A right of repurchase.**
 - A right to rescind.

Answer: To repurchase the goods unpaid is not a right of an unpaid seller.

29. An unpaid seller loses his lien on the goods in the following cases, except:
- When he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of ownership in the goods.
 - When the buyer or his agent lawfully obtains possession of the goods.
 - When the seller waives his possessory lien.
 - When he has obtained judgement for the price of the goods.**

Answer: The judgment for the price of the goods has nothing to do with the seller's lien on the goods.

30. Three of the following are the requisites in order that an unpaid seller may exercise his right of stoppage of transitu. Which one is not?
- The seller is unpaid.
 - The seller has not parted with the possession of goods.**
 - The goods are in transit.
 - The buyer is or becomes insolvent.

Answer: Requisites of Stoppage in Transitu:

- Insolvent buyer
- Seller must surrender the negotiable document of title, if any
- Seller must bear the Expenses of delivery of the goods after the exercise of the right.
- Seller must either actually take possession of the goods sold or give Notice of his claim to the carrier or other person in

PLEDGE, MORTGAGE AND ANTICHRESIS

- One of the distinctions between pledge and mortgage is that pledge:
 - is constituted to secure the fulfillment of a principal obligation.
 - requires absolute ownership on the part of the persons constituting the security.

- c. requires that the one constituting the security must have the free disposal of the thing or be legally authorized for the said purpose.
- d. **requires the actual delivery of the thing given as security to the creditor or a third person by common agreement.**

In Pledge, the thing is delivered to the creditor or a third person by common agreement. In real Mortgage, the thing is not required to be delivered to the creditor

- 2. In order to bind third persons, a pledge:
 - a. must be recorded with the Register of Deeds.
 - b. **must be in a public instrument showing a description of the thing pledged and the date of the pledge.**
 - c. is sufficient that it be in a private instrument showing a description of the thing pledged and the date of the pledge.
 - d. must be accompanied by an affidavit of good faith.

In order to forestall fraud, because a debtor may attempt to conceal his property from his creditors when he sees it in danger of execution by simulating a pledge thereof with an accomplice

- 3. The following is required in order that a chattel mortgage will bind third persons.
 - a. **The chattel mortgage must be accompanied by an affidavit of good faith and record in the Chattel Mortgage Register.**
 - b. The Chattel Mortgage must be in a public instrument showing a description of the thing mortgaged and the date of the chattel mortgage.
 - c. it is sufficient that the chattel mortgage be in writing, public or private.
 - d. The thing mortgaged must be delivered to the creditor.

As to third persons This is a sworn statement attesting to the fact that the mortgage is made for the purpose of securing the obligation specified in the conditions thereof, and for no other purpose, and that the obligation is a just and valid obligation, and one not entered into for the purpose of fraud.

- 4. The following is required in order that a real mortgage will bind third persons.
 - a. the real mortgage must be accompanied by an affidavit of good faith and recorded with the Registry of Property.
 - b. The real mortgage must be in a public instrument showing a description of the thing mortgaged and the date of the real mortgage.
 - c. It is sufficient that the real mortgage be in writing, public or private.
 - d. **The real mortgage must be recorded in the Registry of Property.**

The third person's liability, however, is limited to the value of property mortgaged. The third person cannot be compelled to pay any deficiency after the mortgage is foreclosed unless he expressly assumed liability for the principal obligation

- 5. When is appropriation by the creditor of the thing given as security allowed in pledge, real mortgage and chattel mortgage?

- a. When the thing given as security in real mortgage is not sold at two public auctions.
- b. **When the thing is given as security in pledge is not sold at two public auctions.**
- c. When the thing given as security in chattel mortgage is not sold at one public auction.
- d. No appropriation is allowed in either pledge, real mortgage or chattel mortgage.

In Pledge, The pledgee may appropriate the thing pledged if the same is not sold in two public auctions, In Chattel Mortgage, the mortgagee cannot appropriate the thing mortgaged.

6. This is a stipulation in pledge or mortgage providing that the ownership of the thing given as security will pass to the pledgee or mortgagee upon the default of the debtor.
- a. *Constitutum possessorium*.
 - b. ***Pactum commissorium***
 - c. Legal subrogation
 - d. Redemption.

The elements of *Pactum Commissorium* , which enables the mortgagee or pledgee to acquire ownership of the mortgaged or pledged property without the need of foreclosure proceedings are, there should be a property mortgaged by way of security for the payment of the principal obligation, and there should be a stipulation for automatic appropriation by the creditor of the thing mortgaged in case of non-payment of the principal obligation within the stipulated period.

7. D borrowed P30,000 from C. To secure the debt, D pledged his ring, wristwatch, and necklace. Before the debt could be paid, C died leaving X, Y and Z as heirs. By agreement among the heirs who inherited the credit, the ring would secure the share of X of the credit, the wristwatch the share of Y, and the necklace the share of Z. Later, D pays X P10,000.
- a. D can demand the extinguishment of the pledge of the ring.
 - b. X may release the pledge of the ring.
 - c. **The pledge of the ring will remain until the shares of Y and Z are paid by D.**
 - d. D can demand the extinguishment of the pledge of the ring, wristwatch, and necklace because there has been partial payment.

Indivisibility of pledge and mortgage- General rule: A pledge or mortgage is indivisible, even though the debt may be divided among the successors in interest of the debtor or of the creditor. This rule even applies even if the debtors are jointly liable.

8. The following may be the object of pledge, except:
- a. all movable within the commerce of men which are susceptible of possession.
 - b. bills of lading
 - c. shares of stock
 - d. **parcel of land**

A pledge, being a real contract, requires for its perfection the delivery of the thing to the creditor or to a third persons by common agreement. Thus

without delivery, the pledge is void. The delivery required here is *Actual Delivery, Pledge is Constituted on Movables*

9. A kind of Mortgage which lacks the formalities required by law but nevertheless shows the intention of the parties to secure a debt with real property is known as:
- conventional mortgage
 - voluntary mortgage
 - equitable mortgage**
 - legal mortgage.

Conventional or Voluntary mortgage- One which is created by the agreement of the parties. Legal Mortgage- One executed pursuant to an express requirement of a provision of Law. Equitable Mortgage- One in which, although it lacks certain formality, form or words or other requisites prescribed by statute, shows the intention of the parties to charge a real property as a security for a debt and contains nothing contrary to law.

10. The debtor/pledger has the following rights, except to:
- ask for the return of the thing pledged after he has paid for the debt, its interests, and with expenses in a proper case.
 - continue to be the owner of the thing pledged unless it is expropriated.
 - require the deposit of the thing with a third person if it is in danger of being impaired or lost through the negligence or willful act of the pledgee.
 - alienate the thing pledged without the consent of the pledgee.**

To alienate, with the consent of the pledgee, the thing is pledged. The Ownership of the thing pledged is transmitted to the vendee or transferee as soon as the pledgee consents to the alienation, but the pledge shall continue in possession.

11. The creditor/pledgee has the following rights, except to:
- retain the thing in his possession until the debt is paid.
 - use the thing pledged even without authority if such use is necessary for its preservation.
 - demand reimbursement of the expenses made for the preservation of the thing.
 - automatically appropriate the thing pledged upon default of the debtor in the payment of his debt.**

To sell the thing pledged upon default of the debtor.

12. On March 1, 2015, D obtained a loan of P 10,000 from C. To secure the debt which is payable on May 1, 2015, D pledged a promissory note amounting to P12,000 which was executed in his favor by M. The promissory note is due April 25, 2015 and properly endorsed by D to C.
- On April 25, 2015, C can collect the note of P12,000 from M. The entire proceeds will belong to C.
 - On April 25, 2015, C can collect the note of P12,000 from M. However, he must give P2,000 to D.**
 - C cannot collect from M. D is the one entitled to collect the note from M.

- d. C cannot collect from M. He must sell the note at public auction at maturity if D cannot pay.

In Conventional pledge the excess belongs to the creditor unless there is a stipulation.

13. A third person who pledges his property to secure another person's debt is released from liability in the following cases, except:
- a. when the creditor voluntarily accepts an immovable property in payment of the debt.
 - b. when the creditor voluntarily accepts a movable property in payment of the debt.
 - c. **if an extension of time is granted to the debtor by the creditor with the pledgor's consent.**
 - d. if through some acts of the creditor, the pledgee cannot be subrogated to the rights, mortgages and preferences of the creditor.

If an extension of time is granted to the debtor by the creditor *without* his consent releases the liability of a third person.

14. A pledge is extinguished through any of the following, except:
- a. sale of the thing pledged.
 - b. **appropriation of the thing pledged after the thing is not sold at one public auction.**
 - c. written abandonment of the pledge.
 - d. return of the thing pledged.

The Extinguishment by Appropriation of the thing pledged after the thing is not sold at one public auction does not only extinguish the pledge but it also extinguishes the Principal Obligation.

15. D pledged his 100 shares of stock on San Miguel Corporation to C to secure his debt of P5,000. On due date, D was not able to pay the debt, so C caused the sale of the shares at public auction. The shares of stock were sold at P4,500
- a. To extinguish the obligation, C may recover the deficiency of P500.00 from D if there is a stipulation to that effect.
 - b. To extinguish the obligation, C may recover the deficiency even if there is no stipulation to that effect.
 - c. **The obligation is extinguished even if there is a deficiency of P500.00. Accordingly, C can no Longer recover the deficiency.**
 - d. The obligation is extinguished only if the proceeds of sale amount to P5,000 or more.

Effects of sale- The Principal obligation shall be extinguished whether or not the proceeds of the sale are equal to the amount of the principal obligation
Extinguishment of Pledge- If the price is less, the creditor cannot recover the deficiency even if stipulated.

AGENCY

1. A contract whereby one person binds himself to render some service or to do something in representation or in behalf of another, with the consent and authority of the latter.
 - a. Contract for lease of services
 - b. **Contract of agency**
 - c. Contract for a piece of work
 - d. Contract to sell

Answer: See Art. 1868.

2. One of the following is not a characteristic of the contract of agency.
 - a. Consensual
 - b. **Accessory**
 - c. Nominate
 - d. Preparatory

Answer: Characteristics of Agency: principal, *preparatory*, *consensual*, *onerous*, *nominate*, bilateral and commutative.

3. P, 25 years old, appointed A, 17 years old, as his agent to sell certain goods for P20,000.00. Thereafter, A sold the goods to B for the said amount. P, however, learned that the price of the goods had increased to P22,000.00 so he sought to disaffirm the sale made by A to B, and brought an action to recover the goods from B on the ground that A's act was voidable, A being a minor, and hence, could not be an agent. Decide.
- The sale is valid because the principal is capable.
 - The sale is void, because A is a minor and therefore, cannot be an agent.
 - The sale is voidable, because A is a minor.
 - The sale is unenforceable, because A exceeded his authority.

Answer: The sale is valid because the principal is the party primarily and originally concerned in the contract of agency. Legal capacity is not required for the validity of the agent's acts which are considered those of the principal since the agent is merely an extension of the personality of the principal.

4. Pantaleon appointed Arturo as the manager of his coconut plantation in Quezon Province. After managing the plantation for 10 years, Arturo informed Pantaleon that on account of failing health, he, Arturo, was turning over the administration of the plantation to Bartolome, an experienced coconut plantation administrator. Arturo also informed Pantaleon that he had given a general power of attorney to Bartolome and that if such authority were not sufficient, Pantaleon could send Bartolome a new power of attorney or appoint a manager of his choice. Pantaleon neither repudiated the designation of Bartolome nor appointed a new agent. Instead, he allowed Bartolome to manage the plantation and continued to receive the reports on the plantation from the latter without any protest. Was Bartolome an agent of Pantaleon?
- No, because Pantaleon himself, did not give a general power of attorney to Bartolome.
 - No, because the designation of Bartolome as manager by Arturo was without Pantaleon's authority.
 - Yes, Bartolome became an agent of Pantaleon because of Pantaleon's failure to repudiate the agency.
 - Yes, because Bartolome was highly qualified to administer the plantation.

Answer: Bartolome was an agent of Pantaleon because consent may be implied. An agency may be implied from the following: (1) acts of the principal, (2) silence of the principal, (3) lack of action of the principal, (4) *failure of the principal to repudiate agency knowing that another person is acting in his behalf without authority.*

5. One of the following acts may be delegated by a principal to his agent. Which is it?
- Vote during the meeting of stockholders of a corporation where the principal is a stockholder.
 - Attend meetings of the board of directors of a corporation where the principal is a director.
 - Purchase land in the Philippines of which the principal is an alien.
 - Represent the principal in a marriage ceremony where the principal is a party to the marriage contract.

Answer: The right of a stockholder to vote during stockholders' meetings may be delegated since this is something that one can lawfully do. (Sec. 58, Corp. Code)

6. One of the following acts requires a special power of attorney granted by the principal to his agent. Which is it?
- To make gifts to employees in the business managed by the agent.
 - To borrow the money which is urgently needed to preserve then property of the principal under the administration of the agent.
 - To make payments for purchases in the ordinary course of the business.
 - To lease the real property of the principal to another person for more than one year.**

Answer: A special power of attorney is required for the performance of the specific acts mentioned in Article 1878.

7. One of the following acts requires only a general power of attorney, not a special power of attorney, for the agent. Which is it?
- To bind the principal in a contract of partnership.
 - To loan money of the principal.
 - To enter into a contract by which the ownership of an immovable is transmitted or acquired gratuitously or for a valuable consideration.
 - To make such payments as are usually considered acts of administration.**

Answer: Agency couched in general terms (general power of attorney) comprises only acts of administration.

8. Pedro, a Filipino who was on a business trip in Timbuktu, learned that Federico, also a Filipino, was interested in buying his lot located in Fairview, Quezon City. To take advantage of the opportunity, he made an overseas call to Almario, his business associate who was in Manila, to sell the lot in his (Pedro's) behalf, to Federico, for P1,000,000.00 cash. Almario thus sold the lot promptly to Federico. The contract of sale was in a public instrument which was signed by Almario in behalf of Pedro as seller, and Federico as buyer. The said contract of sale is:
- Valid, because it is in a public instrument and Almario was duly authorize to represent Pedro.
 - Void, because the authority of Almario was not in the form required by law.**
 - Unenforceable, because Pedro did not sign the contract of sale and so he had no consent thereto.
 - Rescissible, because the contract was entered into in the representation of an absentee.

Answer: When the sale of a piece of land or an interest therein is made through an agent, the authority of the agent must be made in writing, otherwise the sale is void. (Art. 1874)

9. P, the owner of a certain car, wanted to sell the car. A learned that P was selling the car. Without the authority of P, A sold the car in his (A's) name to B. What is the status of the sale of the car?
- Valid between A and B but A must be able to transfer the ownership of the car to B at the time of delivery.**

- b. Unenforceable against P because he did not authorize A to sell the car.
- c. Void because A was not the owner of the car at the time of sale.
- d. Voidable because the sale was without the consent of P.

Answer: In the case of a contract of sale, a person may sell in his own name something belonging to another provided he can transfer its ownership thereof at the time of delivery. The act is therefore valid. If he cannot transfer such ownership, he can be liable for breach of warranty against eviction. (Arts. 1459, 1548)

10. Purefine Corporation published in the Manila Bulletin that it was appointing Armando Arcos as its duly authorized agent for the sale of "Purofino" flour, one of its products. With the authority, Armando sold the "Purofino" flour to various bakeshops all over Luzon. After three years, Purefine revoked Armando's authority giving notice of revocation to Armando and publishing a notice of revocation to Armando and publishing a notice of revocation in the Philippine Star. Despite the revocation, Armando still sold 50 bags of "Purofino" flour to Barbie's Bakeshop, a single proprietorship owned by Barbie Barredo now wants to have the flour she ordered delivered to her by Purefine but Purefine seeks to set aside the sale of 50 bags of flour to Barbie's Bakeshop.

- a. Purefine is not obliged to deliver 50 bags of flour because Barbie Barredo is deemed to have known of the revocation of Armando's authority.
- b. Purefine is obliged to deliver 50 bags of flour to Barbie Barredo because the latter did not read the publication of the revocation of Armando's authority.
- c. Purefine is obliged to deliver 50 bags of flour because the revocation was not binding upon Babie Barredo since it was published in another newspaper.
- d. Purefine is not obliged to deliver 50 bags of flour because the notice of revocation to Armando is sufficient.

Answer: Notice of revocation in a newspaper of general circulation is sufficient warning to third persons. (Art. 1922) Hence, the publication of the revocation of Armando's authority was binding on any person, whether or not they have read such publication.

11. Precision Appliances Corporation, which is based in Metro Manila, sent a letter with a special power of attorney, to Alberto Aguado, an agent dealing with appliances, in the latter's office in Cebu, appointing Alberto as the agent of Precision to sell its new appliances. The letter, which was sent through LBC Courier Services, was duly received by Alberto Aguado, who signed in the logbook of LBC. Alberto, however, did not respond to the letter. Based on the foregoing data:

- a. An agency was created between Precision and Alberto by the implied acceptance of Alberto of the agency.
- b. No agency was created between Precision and Alberto because Alberto did not respond to the letter.
- c. An agency was created by the ratification of Alberto when he duly received the letter with a special power of attorney.
- d. No agency was created because of the inaction of Alberto.

Answer: Acceptance by the agent may be implied from: (1) His acts which carry out the agency and (2) His silence or inaction according to the circumstances. (Art. 1870)

12. The following statements refer either to authority or instruction given by the principal to his agent.
- I. Relates to the kind of business or transaction upon which the agent is commissioned to act.
 - II. Concerns the principal and the agent.
 - III. Refers to the mode of action by the agent in carrying out the agency.
 - IV. Third persons can require the agent to present it to them since they are chargeable with knowledge thereof.

You are to determine whether the above statements pertain to authority or instruction.

- a. I and II refer to authority.
- b. **I and IV refer to authority.**
- c. II and IV refer to instruction.
- d. III and IV refer to instruction.

Answer: Authority refers to the subject matter upon which the agent is commissioned to act. Third persons are bound to know whether an agent is acting within his authority or not. Accordingly, they have the right to require the agent to present his authority as written. (See Art. 1900.)

13. Pamela, a professional singer based in Cebu, authorized Allona, also a professional singer, to go to Manila to look for a nightclub where Pamela could sing. When Allona arrived in Manila, she presented herself, not Pamela, as the singer, to the Twinkle Night Club which engaged her services to sing nightly for two months at the club. Based on the foregoing information, which of the following statements is correct?
- a. Pamela has a right of action against Twinkle Night Club.
 - b. Twinkle Night Club has a right of action against Pamela.
 - c. **The contract between Allona and Twinkle Night Club is valid contract between them, not between Pamela and Twinkle Night Club.**
 - d. The contract between Allona and Twinkle Night Club is void because Pamela was not the party thereto.

Answer: The contract is between Allona and Twinkle Night Club. Pamela and the Twinkle Night Club have no right of action against each other.

The agent is the one directly bound in favour of the one with whom he has contracted as if the transactions were his own except when the contract involves things belonging to the principal. (Art. 1883)

14. Paramount Auto Corporation, an authorized dealer of Honda cars, appointed Armando as its agent to sell the cars of the company. The authority of Armando includes giving of a discount of P20,000.00 to customers who pay in cash. One day, Carmina, a customer, went to the company's car center and told Armando that she wanted to buy a car with a sales price of P600,000.00. However, as she only had P550,000.00, she told Armando that she would take the car if Armando agreed to discount of P50,000.00. Armando agreed and sold the car to Carmona at

P550,000.00 in behalf of the corporation. What is the status of the sale made by Armando to Carmina?

- a. Voidable at the instance of Paramount because it did not give its consent to the sale at the discount of P50,000.00.
- b. **Unenforceable against Paramount, the Principal, because Armando acted beyond the scope of his authority.**
- c. Void, because the additional discount of P30,000.00 given by Armando was not authorized by Paramount.
- d. Rescissible, because Paramount suffered damage of P30,000.00.

Answer: If agent acts in excess of the authority of his principal and in the principal's behalf the act is unenforceable against the principal or the person in whose name the contract was entered into unless the latter ratifies the same. (See Arts. 1317 and 1403.) Armando alone will be liable to Carmina.

15. Perez gave Almendras a special power of attorney wherein it was written that Almendras was being authorized to sell the two cars of Perez. However, Perez and Almendras had an understanding that Almendras should sell only one of the cars. Almendras sold the two cars to Bernarte who was not aware of the instruction given by Perez to Almendras.

- a. Perez is bound by the sale of only one car in accordance with his understanding with Almendras.
- b. **Perez is bound by the sale of two cars because that is what is contained in the special power of attorney as written.**
- c. Perez is not bound at all by the sale of either one or both of the two cars because Almendras violated the instruction given by Perez.
- d. Perez will not be bound by the sale of one or both cars at his opinion.

Answer: Power of attorney is a written instrument given by a principal to his agent authorizing the latter to perform specified acts in behalf of the former, which acts when performed, shall have a binding effect on the principal.

16. Ponciano gave a power of attorney to Alfonso for the sale of his 2 cars, a Toyota and a Lancer. Their agreement included, among other provisions, the following: (1) Alfonso shall be entitled to a commission of 10% based on the actual selling price of the cars which Ponciano fixed at a minimum of P400,000.00 for the Toyota; and P500,000.00 for the Lancer; and (2) Alfonso need not to render to Ponciano any accounting of his transaction as long as Alfonso turns over the actual selling price of the cars net of the commission of 10%. Alfonso was able to sell the Toyota to Teodolfo for P410,000.00; and the Lancer for P500,000.00 to Leoncio who gave Alfonso a tip of P20,000.00. After the sale, Ponciano demanded from Alfonso an accounting of the transactions that he had made but Alfonso refused claiming that it was enough that he turned over the net selling price of P810,000.00 (900,000 less 10% of 900,000.00 as commission) to Ponciano as agreed to by the two of them. Decide.

- a. Alfonso need not render an accounting to Ponciano because that was their agreement.
- b. Alfonso must account and deliver to Ponciano only the sum of P900,000.00.
- c. Alfonso must account and deliver to Ponciano P910,000.00.
- d. **Alfonso must account and deliver to Ponciano P930,000.00.**

Answer: Any stipulation exempting the agent from the obligation to render an account shall be void. (Art. 1891)

17. The following statements pertain to either a commission agent or a broker.

- I. He has a relation not only with his principal, and the buyers or sellers, but also with the property which is the object of the transaction.
- II. Maintains no relation with the thing he purchases or sells.
- III. The goods are placed in his possession and disposal.
- IV. He is merely an intermediary whose function is to bring the parties to the transaction.

Determine whether the above statements pertain to commission agent or broker.

- a. I and III pertains to a commission agent.
- b. I and IV pertains to a commission agent.
- c. II and III pertains to a broker.
- d. I and IV pertains to a broker.

Answer: A commission agent maintains a relation not only with his principal and the buyer or seller but also with the property subject matter of the transaction which is placed in his possession and at his disposal.

18. The principal is not liable for the expenses incurred by the agent in the following, except when:

- a. although the agent acted in contravention of the principal's instructions, the principal wishes to avail himself of the benefits derived from the contract.
- b. it was stipulated that the agent would be allowed only a certain sum.
- c. the agent incurred them with the knowledge that an unfavorable result would ensue, if the principal was not aware thereof.
- d. the expenses were due to the fault of the agent.

Answer: *When the principal wishes to avail himself of the benefits derived from the contract* although the agent acted in contravention of the principal's instructions the principal is liable for the expenses incurred by agent.

19. When two persons contract with regard to the same immovable thing, one of them with the agent, and the other with the principal, and the contracts are incompatible with each other, ownership shall belong to the:

- a. first purchaser in good faith.
- b. one who first completed the payment of the price in good faith.
- c. one who first registered in good faith the transaction.
- d. one who presents the oldest title who must be in good faith.

Answer: If the thing is an immovable - ownership shall belong to: (1) *The first registrant in good faith* (2) In the absence thereof, the first possessor in good faith. (3) In the absence of both, the one who presents the oldest title in good faith.

20. An agency is impliedly revoked in three of the following cases. Which is the exception?
- When a new agent is appointed for the same business or transaction.
 - When the principal directly manages the business entrusted to the agent, dealing directly with third persons.
 - When a special power of attorney is granted to another agent pertaining to a special matter involved in a general power of attorney issued to a previous agent.
 - When the desire of the principal is help the agent manage the business.

Answer: Revocation can be inferred from the act of the principal (impliedly revoked) in choices a, b, and c except **d**.

NEGOTIABLE INSTRUMENTS

- An instrument which is not dated will be considered dated as the time of:
 - acceptance.
 - first indorsement.
 - last indorsement.
 - issuance.

****See Section 17 (b) Where the instrument provides for the payment of interest, without specifying the date from which interest is to run, the interest runs from the date of the instrument, and if the instrument is undated, from the issue thereof.***

- "I promise to pay P or his order the sum of P10,000.00 30 days after the death of X". This is an instrument payable:
 - at a determinable future time.

- b. on demand.
- c. upon the fulfillment of a condition.
- d. at an indefinite time, hence, non-negotiable.

***See Section 4 (c) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening be uncertain.**

3. Who among the following is the holder of a negotiable instrument originally payable to order?
- a. The original payee who has negotiated the instrument.
 - b. The indorsee who is in possession of the instrument.
 - c. The possessor of the instrument to whom the instrument was delivered without any indorsement.
 - d. The indorsee who has negotiated the instrument.

***See Section 191 definition of "Holder" means the payee or indorsee of a bill or note, who is in possession of it, or the bearer thereof;**

4. An instrument payable to bearer may be negotiated through any of the following means, except by:
- a. special indorsement plus delivery.
 - b. mere delivery.
 - c. blank indorsement plus delivery.
 - d. No delivery is required as long as there is an indorsement, whether blank or special.

***See Section 30 where negotiable instruments payable to bearer may be negotiated by mere delivery alone without indorsement.**

5. The following instruments are presented to you for evaluation:
- I. "Pay to the order of Pablo Patricio P20,000.00"
 - II. "Pay to the order of Pablo Patricio P20,000.00 or delivery to him a computer of the same value at his option."
 - III. "Pay to the order of Pablo Patricio P20,000.00 or deliver to him a computer of the same value."
 - IV. "Pay to the order of Pablo Patricio a computer worth P20,000.00"

Assuming all the other requisites of negotiability are present, which of the foregoing instruments are negotiable?

- a. Instruments I and II.
- b. Instruments I and III.
- c. Instruments II and III.
- d. Instruments III and IV.

***Instruments III and IV does not conform on Section 1[b]. Under comments on Section 5 of Hector De Leon Jr. and Hector De Leon Sr., The Law on Neg. Inst., 2016, pp. 40.**

6. The separate paper attached to an instrument on which an indorsement or acceptance of the instrument is written is called:
- a. allonge.
 - b. memorandum.
 - c. enclosure.
 - d. attachment.

***See comments under Section 31.**

7. Assuming all the other requisites of negotiability are present, which of the following instruments is not payable to bearer?
- “Pay to the order of Cash.”
 - “Pay to the order of Jose Rizal, national hero.”
 - “Pay to Pedro Padernal, bearer.”
 - “Pay to Pedro Padernal or bearer.”

***See Section 9[b] where instrument should be named or bearer. The comma after the name therein makes the name the specific bearer.**

8. Consider these two statements:
- An instrument originally payable to order may be converted into a bearer instrument.
 - An instrument originally payable to bearer may be converted into an order instrument.

In your evaluation of the foregoing statements:

- Both statements are true.
- Both statements are false.
- Statement I is true; Statement II is false.
- Statement I is false; Statement II is true.

***See comments under Section 35 of Hector De Leon Jr. and Hector De Leon Sr., The Law on Neg. Inst., 2016, pp. 35-40.**

9. Which of the following is a valid address to a drawee so as to make the instrument negotiable?
- “To Walter Wenceslao or Wilfredo Wycoco.”
 - “To Walter Wenceslao, or in his absence, Wilfredo Wycoco.”
 - “To Walter Wenceslao and Wilfredo Wycoco.”
 - “To Walter Wenceslao and another drawee named Wilfredo.”

***Under Section 128. A bill may be addressed to two or more drawees jointly, whether they are partners or not; but not to two or more drawees in the alternative or in succession.**

10. M signs a promissory note payable to the order of P which is blank as to amount. M delivers the note to P with the instruction to type the amount of P20,000.00 on the blank. P, however, types the amount of P50,000.00, and negotiates the same to A, A to B, B to C, and C to H, a holder in due course. A, B, C and also H had no knowledge of the wrongful completion of the blank.
- H may collect from M nothing because P violated M’s instructions.
 - H may collect from M P20,000.00 the amount M instructed P to place on the space for the amount.
 - H may collect from M P50,000.00, the amount actually placed by P.
 - H may collect from A, B or C P20,000.00 since they had no knowledge of the wrongful completion.

***Under section 60, First M, by making the instrument admits the existence of the payee and his then capacity to the indorsee.**

11. R signs a check amounting to P50,000.00 but which is blank as to the name of payee. He keeps the check in his drawer but S, his secretary, steals it, places her name as payee on the blank, and negotiates it to A, A to B, B to C, and C to H, holder. A, B, and C have no knowledge of the theft of the check and its unauthorized completion by S. Based on the foregoing, which of the following statements is incorrect?
- H may enforce payment of the check against R if H is a holder in due course.
 - H may enforce payment of the check against S, whether H is a holder in due course or not.
 - H may enforce payment of the check against A, B and C, whether H is a holder in due course or not.
 - H may not enforce payment of the check against R, whether H is a holder in due course or not.

****Under Holder in due course, he can enforce the instrument as if it had been filled up strictly in accordance with the authority given and within a reasonable time.***

12. M makes a note payable to the order of P. He delivers the note to P with the instruction that P should keep the same until M has obtained the proceeds of his loan from the bank. P, however, disregarded the instruction of M and indorsed the note to A, A to B, B to C, and C to H, holder. A, B and C have no knowledge of P's defective title. Based on the foregoing, which of the following statements is incorrect?
- H may enforce payment against M if H is a holder in due course.
 - H may not enforce payment against M if H is not a holder in due course.
 - H may not enforce payment against A, B and C, whether H is a holder in due course or not.
 - H may enforce payment against P, whether H is a holder in due course or not.

****Under Holder not in due course, he cannot enforce the instrument against prior parties.***

13. One of the following can set up the defense of forgery in an instrument payable to order. Who is it?
- An indorser, if the maker's signature is forged.
 - The acceptor, if the drawer's signature is forged.
 - A person negotiating by mere delivery if a prior party's signature is forged.
 - The maker, if an indorser's signature is forged.

****The rule on forgery under section 23 applies only to a signature that is forged or made without authority of the person whose signature it purports to be.***

14. M makes a note payable to P or bearer and delivers the note to P. P indorses the note to A. A keeps the note in his drawer but it is stolen by F who negotiates the same to B by forging A's signature, B indorses the note to C, C indorses the note to H, a holder in due course. Who among the following can set up the defense of forgery?
- M, maker.
 - P, payee.

- c. A, indorser.
- d. Forgery is not available as defense to any party to the instrument.

****Under Effect of Forgery, the signature that is forged or made without authority is wholly inoperative.***

15. One of the following is not a restrictive indorsement. Which is it?
- a. An indorsement that prohibits the further negotiation of the instrument.
 - b. An indorsement that constitutes the indorser a mere assignor of the title to the instrument.
 - c. An indorsement that constitutes the indorsee an agent of the indorser.
 - d. An indorsement that vests title in the indorsee in trust for some other person.

****Because it is a Qualified indorsement.***

16. M makes a note payable to the order of P in the amount of P10,000.00. P indorsers the note to A as follows "Pay to A if he passes the 2015 Bar Examination."
- a. M must wait for the condition to be fulfilled before he can pay A.
 - b. M may pay A even if the condition has not been fulfilled but A has to hold the proceeds subject to the rights of P.
 - c. M cannot be compelled to pay even if the condition is fulfilled because the conditional indorsement renders the instrument non-negotiable.
 - d. M may pay A even if the condition has not been fulfilled. The fulfillment of the condition becomes immaterial and A becomes the absolute owner of the proceeds of the note.

****The promise or order to pay is clearly conditional in nature. It constitute a simple contract rather than a negotiable instrument (See Sec 3)***

17. In order that a person may be held liable as an accommodation party, the following requisites must concur, except:
- a. He has signed the instrument as maker, drawer, acceptor or indorser.
 - b. He has not received any value for such making, drawing, accepting or indorsing the instrument.
 - c. His purpose of signing the instrument is to lend his name or credit to some other person.
 - d. The holder must have no knowledge that such person signed the instrument as an accommodation party.

****See Sec 29 for definition of accommodation party***

18. An indorsement where the indorser signs only his name at the back of the instrument is a:
- a. special indorsement.
 - b. blank indorsement.
 - c. qualified indorsement.
 - d. restrictive indorsement.

****See Sec 34 for definition of blank indorsement***

19. An indorsement where the indorser waives the benefit of any law intended for his protection is known as:

- a. an absolute indorsement.
- b. a facultative indorsement.
- c. a conditional indorsement.
- d. a successive indorsement.

***See Sec 111**

20. M makes a note payable to the order of P. P specially indorses the note to A, A specially indorses the note to B, B indorses the note in blank and delivers it to C, C specially indorses the note to D, D specially indorses the note to H, holder. Which of the indorsements may H strike out?
- a. The special indorsement of P to A.
 - b. The blank indorsement of B to C.
 - c. The special indorsement of C to D.
 - d. The special indorsement of D to H.

***Section 48 states; the holder may at any time strikeout any indorsement which is not necessary to his title.**

21. Which of the following is not a right of a holder in due course?
- a. To hold the instrument free from defect of title of prior parties.
 - b. To hold the instrument free from personal defenses available to prior parties among themselves.
 - c. To enforce payment of the instrument for the full amount thereof against all parties liable thereon.
 - d. To hold the instrument free from real defenses available to the prior parties among themselves.

***A holder who is not a holder in due course has all the rights that the instrument is subject to every defense as if it were non-negotiable. (See Sec 58.) On the other hand, a holder in due course is afforded most favored status under the law. He takes the instrument free of many defenses that exist between the original party. (See Sec. 52)**

22. Which of the following statements pertaining to indorsements is incorrect?
- a. The indorsement must be of the whole instrument.
 - b. The signature of the indorser without additional words is sufficient.
 - c. Indorsers are liable in the order in which they indorse.
 - d. If an instrument is delivered without indorsement, negotiation takes effect at the time of delivery even if the instrument is subsequently indorsed.

***See Section 49 comments on Transfer without indorsement for clarification of answer.**

23. M executed a note payable, to the order of P. P indorsed the note to A, A to B (by qualified indorsement), B to C (by general indorsement), and C (by general indorsement) to H, a holder in due course. Later, it was discovered that P was a minor. None, except P, knew that he was a minor. Who, aside from P, may avail himself of the minority of P as a defense?
- a. M, maker.
 - b. A, qualified indorser.
 - c. B, general indorser.
 - d. None, only P may avail himself of his minority as a defense.

***Title to the instrument passes. However, the minor does not incur any liability on the instrument even to a holder in due course because his lack of capacity is complete or real defense. (Sec 22)**

24. Which of the following does not discharge the instrument?
- Payment in due course by the accommodated party.
 - Intentional cancellation of the instrument by the holder.
 - When the principal debtor becomes the holder in his own right before maturity.
 - Payment in due course by or on behalf of the principal debtor.

***See Sec 119 Discharge of Negotiable Instrument**

25. A party secondarily liable is discharged through any of the following means, except by the:
- intentional cancellation of his signature by the holder.
 - discharge of a prior party.
 - release of the principal debtor.
 - extension of the time of payment which is assented to by such party secondarily liable.

***See sec. 119**

26. Which of the following instruments is negotiable?
- Treasury warrant.
 - Postal money order.
 - Letter of Credit.
 - Trade acceptance.

***Trade acceptance is a type of bill of exchange. (See Sec. 126.)**

27. An instrument reads as follows:

November 30, 2015
I promise to pay to the order of Paolo Pimentel the sum of P 50,000.00 if he places first in the May 2016 CPA Examination.
(Sgd.) Mariano Miranda

- The instrument is valid and negotiable.
- The instrument is valid but not negotiable.
- The instrument is invalid but negotiable.
- The instrument is invalid and not negotiable.

***The promise or order should be unconditional. If it is subject to a condition, the instrument is not negotiable and the happening of the condition does not cure the defect.**

28. An instrument reads as follows:

I promise to pay to the order of Patrick Pelaez the sum of P50,000.00 sixty (60) days after date.
(Sgd.) Minerva Maceda

The instrument was delivered by Minerva Maceda on December 1, 2014 to Patrick Pelaez who indorsed and delivered the note on the same day to

Alberto Antonio. Immediately upon receipt, Alberto Antonio wrote on the note “November 1, 2014” as its date of issue. The following day, Alberto Antonio indorsed and delivered the note to Herman Hernandez who knew nothing with respect to the insertion of a different date of issue.

- a. Herman Hernandez can collect the amount of the note from Minerva Maceda on December 31, 2014.
- b. Herman Hernandez can collect the amount of the note from Minerva Maceda on January 30, 2015.
- c. Herman Hernandez can collect nothing from Minerva Maceda because of the insertion of a wrong date.
- d. Herman Hernandez can collect the amount of the note on December 2, 2014 when it was negotiated to him.

****The collection of the amount is 60 days after date . Since Alberto Antonio specified the date of issuance it is understandable that Hernandez may collect the amount to Maceda 60 days after November 1, 2014.***

29. An instrument reads as follows:

November 1, 2015

I promise to pay to the order of Perla Persida the sum of P30,000.00 on November 30, 2015.

(Sgd.) Melba Montinola
(Sgd.) Milnore Manuel

(Sgd.) Maila Medina

On November 30, 2015, Perla Persida may collect from Melba Montinola:

- a. P30,000.00
- b. P20,000.00
- c. P10,000.00
- d. Nothing, because the note is void since it reads “I promise to pay” but it was signed by three makers.

****Persida may collect the amount of P 30,000 to Montinola since it is due. The instrument is payable on demand because it was issued by him and already on due.***

30. At a movie premier, Perfecto Palmares approached Sharon Morales, the star of the movie, and requested an autograph from her. Sharon Morales willingly obliged and signed her name at the bottom right portion of a white 8” x 11” stationery which Perfecto Palmares presented to her. Shortly after reaching home, Perfecto Palmares printed above the signature of Sharon Morales through his computer the following: “I promise to pay Perfecto Palmares or his order P50,000.00”. Thereafter, Perfecto Palmares negotiated the paper to Arturo Alvarez, Arturo Alvarez to Bernardo Benitez, and Bernardo Benitez to Henry Hilado, holder. Alvarez, Benitez, and Hilado knew nothing about how the apparent note came into being.
- a. If he is a holder in due course. Henry Hilado can collect from Sharon Morales.
 - b. Whether he is a holder in due course or not, Henry Hilado cannot collect from Sharon Morales.
 - c. Whether he is a holder in due course or not, Henry Hilado cannot collect from Arturo Alvarez.

d. Whether he is a holder in due course or not, Henry Hilado cannot collect from Bernardo Benitez.

***Under section 55, when title of a person defective.**

31. M makes a promissory note payable to the order of P for P10,000.00. P indorses the note to A, and A to B. Thereafter, B indorsed the amount of the note in full to H to secure his (B's) debt of P8,000.00 to H. Based on the foregoing, which of the following statements is incorrect?
- If M has no defenses against H, H may collect P10,000.00 from M.
 - If M has personal defenses against H, H may collect P8,000.00 from M.
 - If M has real defenses against H, H may collect nothing from M.
 - H cannot collect anything from M whether M has real or personal defenses.

***A holder who derives his title through a holder in due course, and who is not himself a party to any fraud, has all the rights in respect of all parties prior to the latter.**

32. Which of the following renders an instrument non-negotiable?
- The promise or order is to pay the amount of the instrument out of a particular fund.
 - The promise or order to pay is coupled with a statement of the transaction that gave rise to the transaction.
 - The sum payable is to be paid with costs of collection or an attorney's fee in case payment is not made at maturity.
 - The instrument contains a provision authorizing the sale of collateral securities in case the instrument is not paid at maturity.

***under promise is unconditional (section 3)**

33. Which of the following omissions on the face of an instrument will render it non-negotiable?
- The omission of the date of issue.
 - The omission of any statement that value has been given.
 - The omission of the place where the instrument was drawn.
 - The omission of the signature of the maker above his typewritten name.

***an instrument to be negotiable it must be signed by the maker or drawer.**

34. Medardo Medrano makes a note payable to the order of Pidencio Palomar and Prudencio Perez for P20,000.00. The payees are not partners and neither one authorized the other to act in his behalf. Based on the foregoing, which of the following is a valid indorsement?
- "Pay to Antonio Arevalo, P12,000.00, and to Alberto Alvarez, P8,000.00.
(Sgd.) Pidencio Palomar (Sgd.) Prudencio Perez"
 - "Pay to Antonio Arevalo, P14,000.00.
(Sgd.) Pidencio Palomar (Sgd.) Prudencio Perez"

Note: Medardo Medrano has paid a total of P6,000.00 to both payees before the latter made their indorsements.

- "Pay to Antonio Arevalo, P14,000.00.

(Sgd.) Pidencio Palomar (Sgd.) Prudencio Perez"

Note: Medardo Medrano has not paid any amount to the payees.

- d. "Pay to Antonio Arevalo, P20,000.00.
(Sgd.) Pidencio Palomar"

***under section 32, the indorsement must be an indorsement of the entire instrument (P20,000.00-P6,000.00=P14,000.00)**

35. Which of the following may be raised as a defense against any holder?
- Want of consideration.
 - Want of delivery of complete instrument.
 - Insertion of a wrong date.
 - Want of delivery of an incomplete instrument.

***see section 15**

36. "Pay to Alberto Alvarez for collection only.
(Sgd.) Ponciano Parceró"

This is an example of:

- The agency type of restrictive indorsement.
- The trust type of restrictive indorsement.
- A qualified indorsement.
- A conditional indorsement.

***Alberto Alvarez constitute only as the agent of the indorser.**

37. M makes a promissory note for P10,000.00 payable to the order of P for merchandise to be delivered by P to him. P, however, was able to deliver to M merchandise worth P8,000.00 only. P indorsed the note to A, and A to H.
- If H is a holder in due course, he can collect P10,000.00 from M.
 - If H is not a holder in due course, he can collect P8,000.00 from M.
- Both statements are true.
 - Both statements are false.
 - Statement I is true; statement II is false.
 - Statement I is false; statement II is true.

***Under partial failure of consideration, M is raising defense pro tanto or only "far so much" a personal defense against holder in due course.**

38. M makes a note payable to the order of P. P indorses the note to A, A to B, B to C, C to D, D to E, and E back to A. Based on the foregoing, which of the following statements is incorrect?
- A may renegotiate the promissory note.
 - A cannot go after B, C, D and E.
 - B, C, D, and E enjoy temporary defense if A is the holder.
 - If the instrument is renegotiated by A to F, the latter cannot go after B, C, D and E.

***Sec. 50. If prior party renegotiates the instrument to a holder in due course, the latter can go after intervening parties.**

39. Mary Montes and Melany Manalo obtained a loan of P100,000.00 from Patricia Palma. The debtors executed a promissory which reads as follows:

We promise to pay Patricia Palma or order P100,000.00 on November 30, 2015. (Sgd.) Mary Montes (Sgd.) Melany Manalo

To secure the loan, Mary Montes pledged her diamond ring, while Melany Manalo executed a mortgage on her lot.

- a. Mary Montes may demand the return of her diamond ring if she pays her share of the debt, while Melany Manalo's share remains outstanding.
- b. Melany Manalo may demand the cancellation of the mortgage on her lot if she pays her share of the debt, while Mary Montes' share remains outstanding.
- c. Both Mary Montes and Melany Manalo must pay the total amount of the debt before Mary Montes could demand the return of the diamond ring, and Melany Manalo the cancellation of the mortgage on her lot.
- d. Patricia Palma may demand payment of the amount of P100,000.00 from either Mary Montes or Melany Manalo.

****special type of promissory note whereby the maker constitutes, to secure the amount due which the holder may foreclose or dispose if the maker defaults in the payment of the sum due.***

40. M executed a promissory note in the amount of P20,000.00 payable to the order of P. M made the promissory note for goods purchased by M from P shortly after M obtained the consent of P whether the latter would accept the promissory note in the meantime. When P visited M's office to collect the note, M was not around, but P found on M's table the completed note that M made for him. Without waiting for M, P took the note. Based on the foregoing, which of the following statements is incorrect?
- a. P cannot enforce payment of the note if M refuses to pay it.
 - b. If P indorses the note to H who knows nothing on how P obtained the note, H can collect on the note from M.
 - c. If P indorses the note to H who knows how P obtained the note from M, H cannot collect from M.
 - d. If P indorses the note to H, H can collect from M whether H was aware or not on how the note was obtained by P since he (H) was not a party to the wrongdoing committed by P.

****Sec 16. Mechanically complete but undelivered instrument.***

41. The following instruments are presented to you for evaluation:
- I. "Pay to the order of Pablo Patricio P 20,000.00 in goods which are displayed at your store."
 - II. "Pay to the order of Pablo Patricio P 20,000.00 or deliver to him a computer of the same value at his option."

Assuming all the other requisites of Negotiability are present:

- a. Both instruments are negotiable.
- b. Both instruments are not negotiable.
- c. Instrument I is negotiable; Instrument II is not negotiable.
- d. Instrument I is not negotiable; Instrument II is negotiable.

***I. Sum payable must be certain in money and in money only
II. The instrument gives the holder an election to require something to be done in lieu of the payment of money (Sec.5)**

42. The following are two of several requisites of an instrument:
- I. The instrument must be payable on demand or at a fixed or determinable future time.
 - II. The instrument must be payable to order or to bearer.
- a. Both requisites apply to promissory notes only.
 - b. Both requisites apply to bills of exchange only.
 - c. Both requisites apply to both promissory notes and bills of exchange.
 - d. Requisite I applies to promissory notes; Requisite II applies to bills of exchange.

***Sec.1. 1-4 applies to promissory notes while 1-5 applies to bill of exchange.**

43. The attribute of a negotiable instrument which allows it to be passed from one hand to another similar to money, so as to give a holder in due course the right to hold the instrument free from defect of title of prior parties, and free from defenses available to prior parties among themselves, and to enforce payment of the instrument for the full amount thereof against all parties liable thereon is known as:
- a. Assignability
 - b. Negotiability
 - c. Transferability
 - d. Acceptability

***under principal characteristics of negotiable instruments (Sec. 57.)**

44. An instrument is not payable on demand in one of the following cases. Which case is it?
- a. When the instrument is expressed to be payable at sight.
 - b. When the instrument is expressed to be payable upon presentation.
 - c. When no time for payment is expressed.
 - d. When the instrument is expressed to be payable after the occurrence of a specified event which is certain to happen.

***Under Sec. 7, an instrument is payable on demand (a) where it is expressed to be payable on demand, or at sight, or on presentation; or (b) in which no time for payment is expressed.**

45. Consider the following statements on the interpretation of Instruments:
- I. Where the sum payable is expressed in words and also in figures and there is a discrepancy between the two, the sum denoted by the words is the sum payable.
 - II. Where there is a conflict between the written and printed provisions of the instrument, the printed provisions prevail.
- a. Both statements are true.
 - b. Both statements are false.
 - c. Statement I is true; Statement II is false.
 - d. Statement I is false; Statement II is true.

***Under Sec. 17, there are seven rules of construction apply where the language of the instrument is ambiguous or there are omission there. The two rules are: (a) where the sum payable is expressed and also in figures and there is discrepancy between the two, the sum denoted by the words is the sum payable; but if the words are ambiguous or uncertain, reference may be had to the figures to fix the amount; (d) where there is a conflict between the written and printed provisions of the instrument, the written provisions prevail;**

46. A bill of exchange reads as follows:

January 1, 2015
Pay to the order of Pamela Pineda the sum of P 50,000.00 thirty (30) days after sight.
(Sgd.) Rosita Rodriguez
To: Wilma Warner

The above bill was issued by Rosita Rodriguez to Pamela Pineda on December 28, 2014 and was presented for acceptance by Pamela Pineda to Wilma Warner on January 10, 2015.

Based on the forgoing facts, the maturity date of the bill is:

- a. January 27, 2015
- b. January 31, 2015
- c. January 9, 2015
- d. January 10, 2015

***Date of maturity is an instrument is overdue after the date of maturity. (a) the date of maturity is the time fixed therein. (b) The instrument is payable on demand, the date of maturity is determined by the date of presentment. (c) If the instrument is payable on the occurrence of a specified event in which is certain to happen, the date is fixed by the happening of the event.**

47. Ramos draws a bill of exchange payable to the order of Palma. Palma presents the bill to Wagan, drawee, for acceptance, and the latter accepts it. Thereafter, Palma indorses the note to Alunan, Alunan to Bernarte, Bernarte to Hornedo, holder. On due date, Hornedo presents the bill to Wagan for payment but Wagan dishonors it claiming that Palma is minor. Wagan, Ramos, Alunan and Bernarte claim that they did know that Palma was a minor at the time that they transacted on the instrument. Aside from Palma, who may claim the defense of minority?
- a. Ramos.
 - b. Wagan.
 - c. Alunan and Bernarte.
 - d. None of the four.

***Only Palma can claim the defense of minority because he is the minor and not the because they are not a holder in due course.**

48. A promissory note reads as follows:

November 1, 2015

I promised to pay Paloma Perez or order the sum of P 20,000.00

(Sgd.) Maria Montano

The above promissory note was delivered by Maria Montano to Paloma Perez who made the following indorsement at the back of the promissory note:

Pay to Alona Almonte if she finishes her course in Business Administration.

(Sgd.) Paloma Perez

- I. The condition of the indorsement is suspensive.
- II. The condition placed on the indorsement renders the instrument non-negotiable.
- III. Maria Montano may waive the fulfillment of the condition and pay Alona Almonte.

- a. All statements are true.
- b. I and II are true.
- c. II and III are true.
- d. I and III are true.

****Because it is a conditional indorsement, therefore it is suspensive, can be stop temporarily until the condition has been fulfilled or not. Under sec. 39, conditional indorsement, a party required to pay the instrument may disregard the condition and make payment to the indorsee or his transferee, whether the condition has been fulfilled or not.***

49. The acceptor, by accepting the instrument, admits the following, except the:
- a. existence of the payee.
 - b. capacity of the payee to indorse.
 - c. genuineness of the drawer's signature.
 - d. right of the holder to enforce payment of the instrument.

****Under Sec. 62, Liability of acceptor- admits (a) the existence of the drawer, the genuiness of his signature, and his capacity and authority to draw the instrument; and (b) the existence of the payee and his then capacity to indorse.***

50. The maker, by making the instrument, has the following liabilities, except:
- a. The engagement to pay the instrument according to its tenor.
 - b. The admission of the existence of the payee.
 - c. The admission of the capacity of the payee to indorse the instrument.
 - d. The admission of the right of the holder to enforce payment of the instrument.

****Under Sec. 60, the maker of a negotiable instrument by making it engages that he will pay it according to its tenor, and admits the existence of the payee and his then capacity to indorse.***

Financial Rehabilitation and Insolvency Law (FRIA) of 2010

1. Under R.A. No. 10142, otherwise known as the Financial Rehabilitation and Insolvency Act (FRIA) of 2010, the term “debtor” includes:
 - a. Banks
 - b. Government-owned or -controlled corporations
 - c. Both (a) and (b)
 - d. Neither (a) nor (b)**

- The term “debtor” as used under the FRIA excludes:
 - 1.) Banks- shall refer to any duly licensed bank or quasi-bank that is potentially or actually subject to conservatorship, receivership or liquidation proceedings, under the New Central Bank Act (R.A. No. 7654) or successor legislation;
 - 2.) Insurance companies – shall refer to those companies that are potentially or actually subject to insolvency proceedings under the Insurance Code (P.D. No. 1460) or successor legislation;
 - 3.) Pre-need companies – shall refer to any corporation authorized/ licensed to sell or offer to sell pre-need plans;
 - 4.) National and local government agencies or units; and

Government financial institutions other than banks and government – owned or –controlled corporation are covered by the FRIA, unless their specific charter provides otherwise (Sec. 5, FRIA).

2. Which of the following acts is within the ambit of a Stay or Suspension Order under the Financial Rehabilitation and Insolvency Act (FRIA)?
 - a. Cases pending appeal before the Supreme Court as of commencement date of the Stay or Suspension Order
 - b. Claims against issuers of letters of credit where the property is not necessary to the rehabilitation of debtor
 - c. Both (a) and (b)
 - d. Neither (a) nor (b)**

- The court shall issue the Commencement Order within five (5) working days from the filing of the petition if it finds the petition for rehabilitation sufficient in form and substance. Where the court finds the petition for rehabilitation deficient in form or substance, it may within the 5-day period and in its discretion, grant a reasonable period to the petitioner to put the petition in order. In such case, the 5-working day period shall be reckoned from the date of filing of the amended or supplemental petition or the submission of such documents (Sec. 15, FRIA).

3. An Out-of-Court Informal Restructuring Agreement or Rehabilitation and Insolvency Act (FRIA) requires the agreement of the debtor and approval of creditors representing at least:
 - a. 75% of secured claims, 75% of unsecured claims, and 80% of total secured and unsecured claims
 - b. 67% of secured claims, 75% of unsecured claims, and 85% of total secured and unsecured claims**
 - c. 70% of secured claims, 70% of unsecured claims, and 75% of total secured and unsecured claims
 - d. 50% of secured claims, and 50% of unsecured claims, and 75% of total secured and unsecured claims

- AN Out-of-Court or Informal Restructuring Agreement or Rehabilitation Plan has to meet the following minimum requirements in order to qualify:
 - 1) Consent of the debtor;
 - 2) Approval of the creditors representing at least 67% of the secured obligations of the debtor;
 - 3) Approval of the creditors representing at least 75% of the unsecured obligations of the debtor; and
 - 4) Approval of the creditors holding at least 85% of the total liabilities, secured and unsecured, of the debtor (Sec. 84, FRIA).

- 4. An insolvent juridical debtor, such as partnerships and corporations, may be liquidated by way of voluntary liquidation whereby the insolvent debtor shall file a verified petition for its liquidation with the court containing:
 - a. Schedule of the debtor's debts and liabilities and inventory of all its assets
 - b. Name of one (1) nominee to the position of liquidator
 - c. Both (a) and (b)
 - d. Neither (a) nor (b)

- An insolvent juridical debtor, such as partnerships and corporations, may be liquidated by way of voluntary liquidation whereby the insolvent debtor shall file a verified petition for its liquidation with the court, containing the following:
 - 1.) Schedule of the debtor's debts and liabilities including a list of creditors with their addresses, amounts of claims and collaterals or securities, if any;
 - 2.) Inventory of all its assets including receivables and claims against third parties; and
 - 3.) Names of at least three (3) nominees to the position of liquidator (Sec. 90, FRIA).

- 5. In the involuntary liquidation of a debtor under the Financial Rehabilitation and Insolvency Act (FRIA), the initiating three (3) or more creditors must have claims against the debtor in the aggregate amount of:
 - a. At least P500,000 or at least 50% of the subscribed capital stock or partners' contributions, whichever is lower
 - b. At least P500,000 or at least 50% of the subscribed capital stock or partners contributions, whichever is higher
 - c. At least P1,000,000 or at least 25% of the subscribed capital stock or partners' contributions, whichever is lower
 - d. At least P1,000,000 or at least 25% of the subscribed capital stock or partners' contributions, whichever is higher

- In involuntary liquidation, three (3) or more creditors whose aggregate claims amount to at least P1,000,000 or at least 25% of the subscribed capital stock or partner's contribution of the debtor, whichever is higher, file a verified petition for the debtor's liquidation with the court, showing the following:
 - 1.) There is no genuine issue of fact or law on the claim/s of the petitioner/s, and that the due and demandable payments thereon have

not been made for at least 180 days or that the debtor has failed generally to meet its liabilities as they fall due; and
2.) There is no substantial likelihood that the debtor may be rehabilitated (Sec. 91, FRIA).

6. Under the Financial Rehabilitation and Insolvency Act (FRIA), what remedy is available to an individual debtor who, possessing sufficient property to cover all his debts, foresees the impossibility of meeting them when they respectively fall due?
 - a. Voluntary liquidation
 - b. Involuntary insolvency
 - c. Suspension of payments**
 - d. None of the foregoing
- An individual debtor who, possessing sufficient property to cover all his debts, foresees the impossibility of meeting them when they respectively fall due may file a verified Petition for Suspension of Payments with the court of the province or city in which he has resided for at least six (6) months prior to the filing of his petition, which shall contain, as the minimum, the following:
 - 1.) Schedule of debts and liabilities;
 - 2.) Inventory of assets; and
 - 3.) Proposed agreement with his creditors (Sec. 94, FRIA)
7. To form a majority vote on any proposed agreement during the creditor's meeting in suspension of payments, it is necessary:
 - a. That three-fourths (3/4) of the creditors voting unite upon the same proposition.
 - b. That the claim represented by said majority vote amount to at least four-fifths (4/5) of the total liabilities of the debtor.
 - c. Both (a) and (b)
 - d. Neither (a) nor (b)**
- After the petition for suspension of payments has been found by the court to be sufficient in form and substance, the presence of the creditors holding claims amounting to at least three-fifths (3/5) of the liabilities shall be necessary for holding a meeting to be presided by a Commissioner appointed by the court (Sec. 97, FRIA).
- To form a majority vote on any proposed agreement during the creditor's meeting, it is necessary:
 - 1.) That two-thirds (2/3) of the creditors voting unite upon the same proposition; and
 - 2.) That the claim represented by said majority vote amount to at least three-fifths (3/5) of the total liabilities of the debtor.
- No creditor who incurred his credit within ninety (90) days prior to the filing of the petition shall be entitled to vote (Sec. 97, FRIA).
8. What are the grounds for which an objection may be made to the decision of the majority in the creditors' meeting?
 - a. Defects in the call of the meeting, in the holding thereof, and in the deliberations had thereat which prejudice the rights of the creditors.
 - b. Fraudulent connivance between one or more creditors and the individual debtor to vote in favor of the proposed agreement.
 - c. Fraudulent conveyance of claims for the purpose of obtaining a majority.
 - d. All of the foregoing.**

- An objection to the decision of the majority in the creditors' meeting may be based on any of the following grounds:
 - 1.) Defects in the call of the meeting, in the holding thereof, and in the deliberations had thereat which prejudice the rights of the creditors;
 - 2.) Fraudulent connivance between one or more creditors and the individual debtor to vote in favor of the proposed agreement; or
 - 3.) Fraudulent conveyance of claims for the purpose of obtaining a majority (Sec. 100, FRIA).

 - 9. X filed a petition for suspension of payments in court. During the pendency of the proceedings, a writ of execution was issued by another court in favor of C, an unsecured creditor, against X. M, a creditor-mortgagee, also initiated the foreclosure of the mortgaged property of X. Which of the following statements relative to Suspension of Payments under the FRIA is correct?
 - a. Both the execution in favor of C and the foreclosure on the mortgage in favor of M shall be suspended.
 - b. Fraudulent connivance between one or more creditors and the individual debtor to vote in favor of the proposed agreement.
 - c. Fraudulent conveyance of claims for the purpose of obtaining a majority.
 - d. All of the foregoing.**

 - Under Suspension of Payments, any execution in favor of the creditors and against the debtor shall be suspended, but the foreclosure on any mortgage executed by the debtor in favor of the creditor may proceed independently of the proceedings for suspension of payments (Sec. 114, FRIA).

 - 10. Under the Financial Rehabilitation and Insolvency Act (FRIA), which of the following petitions amounts to an act of insolvency?
 - a. Voluntary liquidation**
 - b. Suspension of payments
 - c. Rehabilitation
 - d. None of the foregoing

 - An insolvent individual debtor may be liquidated by way of:

Voluntary liquidation – the insolvent debtor whose properties are not sufficient to cover his liabilities, and owing debts exceeding P500,000, may file a verified petition for his liquidation with the court of the province or city in which he has resided for at least six (6) months prior to the filing of the petition in order that he may be discharged from his debts and liabilities, containing the following:

 - a.) Schedule of debts and liabilities; and
 - b.) Inventory of assets.

The filing of such petition shall be an act of insolvency (Sec. 103, FRIA).
-

Intellectual Property Law (Intellectual Property Office)

- 1) The term “Intellectual property rights,” may consists of:
 - a. Layout-Designs (Topographies) of Integrated Circuits
 - b. Protection of Undisclosed Information
 - c. **Both a and b**
 - d. Neither a nor b

- The term “intellectual property rights” consists of”
 - (1) Copyright and Related Rights
 - (2) Trademarks and Service Marks
 - (3) Geographic Indications
 - (4) Industrial Designs
 - (5) Patents
 - (6) Layout-Designs (Topographies) of Integrated Circuits
 - (7) Protection of Undisclosed Information

- 2) One of the following bureaus does not exist in the Intellectual Property Office:
 - a. **Bureau of Copyright**
 - b. Bureau of Trademarks
 - c. Bureau of Patents
 - d. Management Information System and EDP Services Bureau

- The Intellectual Property Office (IPO) is headed by a Director General who is assisted by two Deputies Director General. It has the following bureaus, each headed by a Director and assisted by an Assistant Director:
 - (1) Bureau of Patents
 - (2) Bureau of Trademarks
 - (3) Bureau of Legal Affairs
 - (4) Documentation, Information and Technology Transfer Bureau
 - (5) Management Information System and EDP Services Bureau
 - (6) Administrative, Financial and Personnel Services Bureau

- 3) The Director of the Bureau of Legal Affairs decided a petition for the cancellation of a patent against X. X appealed before the Director General of the Intellectual Property Office who also decided against his petition. A motion for reconsideration was likewise denied by the same office. Under R.A No. 8293, otherwise known as the Intellectual Property Code, in relation to Rules 43 and 45 of the Rules of Court, the remedy of X is to:
 - a. File an ordinary appeal before the Regional Trial Court
 - b. **File a petition for review before the Court of Appeals on questions of law or of fact or both questions of law and of fact**
 - c. File an ordinary appeal before the Court of Appeals on questions of facts
 - d. File a petition for review on certiorari before the Supreme Court on questions of law

- The 1997 Revised Rules of Civil procedure promulgated by the Supreme Court has provided for a uniform mode of appeal from the decisions of quasi-judicial agencies. Therefore, the decision or ruling of the Director General may be appealed by filling a Petition for Review

before the Court of Appeals (CA) within 15 days from receipt of the decision or ruling, or denial of the motion for reconsideration. The said appeal may involve questions of law or of fact, or both of law and of fact. And the decision of the (CA) may ultimately be appealed by filing a Petition for Review on Certiorari before the Supreme Court within 15 days from receipt thereof.

- 4) Which of the following intellectual property cases belongs to the exclusive original jurisdiction of the regular court?
- License dispute involving a composer's right to air his musical piece over a radio stations
 - Complaint for violation of trademark right with prayer for damages in the um of ₱200,000
 - Complaint for violation of patent right with prayer for damages in the sum of ₱350,000
 - None of the foregoing**
- The Intellectual Property Office and the court of competent jurisdiction shall exercise concurrent original jurisdiction in the following cases:
- License disputes involving the author's right to public performance or other communication of his work - Director General or the Court
 - Cases involving violations of intellectual property rights where the amount of damages claimed is not less than ₱200,000 - Director of Legal Affairs of the court
- 5) The decision or ruling of the Director General of the IPO cannot be appealed directly before the regular court if it emanates from the decision or ruling of the Director of the:
- Documentation, Information and technology Transfer Bureau**
 - Bureau of Legal Affairs
 - Bureau of Patents
 - None of the following
- The decision or ruling of the Director General of the IPO that emanates from the decision or ruling of the Director of the Documentation, Information & technology Transfer Bureau shall be appealable to the Secretary of Trade and Industry
- 6) In determining the requisite of "non-obviousness" in an invention, the following factors, among others, are considered:
- Level of ordinary skill in the field of the invention
 - Commercial success
 - Both a and b**
 - Neither a nor b
- The 4 factors considered in determining the requisite of non-obviousness in inventions are:
- Scope and content of the prior art
 - Difference between the prior art and the claimed invention
 - Level of ordinary skill in the field of the invention
 - Secondary factors such as commercial success, long-felt need and copying
- 7) X filed an application for patent before the Bureau of patents of the IPO. He believes his invention will not be appreciated and used at the moment by the public. However, he is very optimistic that it will help

the computer technology in the near future. If you were the Patent Examiner, how would you act on X's patent application?

- a. Grant the patent to X
 - b. Deny the application for lack of novelty
 - c. Deny the application for lack of "inventive step."
 - d. Deny the application for lack of "industrial applicability."
- The third essential requisite of patentability of an invention is utility; meaning, it must have an industrial applicability or a practical use in any industry. Patent dwells in the world of commerce, not in the world of philosophy. Therefore, the patent application shall be denied.
- 8) X is an engineer of a multi-national company. He was able to create an invention while in the employ of his employer. Which of these statements relative to the patent of X's invention is true?
- a. X owns the patent if the inventive activity is part of his regularly-assigned duties
 - b. X owns the patent if the inventive activity is not part of his regularly-assigned duties and only if he did not use the time, facilities and materials of the company
 - c. X owns the patent if the inventive activity is not part of his regularly-assigned duties and whether or not he used the time, facilities and materials of the company
 - d. X does not own the patent which legally belongs to his employer
- The patent belongs to the employee if the inventive activity is not part of his regular duties even if he uses the time, facilities and materials of the employer. The employer would have no more right to appropriate such property than any other proprietor would have. In other cases, (a) the person who commissions the work shall own the patent, unless otherwise provided in the contract; (b) the employer owns the patent if the invention is the result of the employee's regularly-assigned duties, unless there is an agreement to the contrary.
- 9) Which of the following statements relative to the disclosure requirement in patent applications is false?
- a. The "best mode test" determines whether the inventor both knew of and concealed a better mode of carrying out the claimed invention than what was set forth in the specification
 - b. The "enabling test" determines whether the specification in the patent application supplies the novel aspects of the invention so as to enable one who is not skilled in the art to practice it
 - c. One of the two-fold purpose of the law in requiring the patentee to describe clearly and completely the invention in his application for patent is to secure him all the protection he is entitled
 - d. The other purpose of the law in full disclosure of the invention is to apprise the public of what is still open for them to appropriate
- The 2 tests relative to the disclosure requirement of a patent application are:
(1) Best mode test - determining whether the inventor both knew of and concealed a better mode of carrying out the claimed invention than what was set forth in the specification

(2) Enabling test – determining whether the specification supplies the novel aspects of the invention so as to enable one skilled in the art to practice it.

The purpose of the law in requiring the patentee to describe clearly and completely the invention in his application for patent is two-fold:

- (1) To secure him all the protection he is entitled
- (2) To apprise the public of what is still open for them to appropriate

- 10) X filed her patent application before the Bureau of Patents of the IPO on July 1, 200A. Which of the following statements relative to X's patent application is true?
- a. The application shall be published in the IPO Gazette on January 2, 200C or anytime thereafter
 - b. Assuming the application is published in the IPO Gazette on June 30, 200C, X shall file a written request for examination not later than June 30, 200D
 - c. Both a and b
 - d. Neither a nor b
- The patent application of X will be published in the IPO Gazette after the expiration of 18 months from the filing date, or in this case, on January 2, 200C or anytime thereafter. Within 6 months from the publication date, X must file a written request for examination: (1) to determine if the application meets all the requirements (2) if the duties are paid on time. Thereafter, the patent shall be granted to X and his patent shall take effect on the date of publication of the grant in the IPO Gazette.
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Rules of Procedure on Corporate Rehabilitation

1. Which of the following pleadings or motions is permitted in corporate rehabilitation proceedings?

- a. Motions to dismiss
- b. Intervention
- c. Third-party complaint
- d. None of the foregoing**

- The following pleadings are prohibited in rehabilitation proceedings:
 - 1) Motion to dismiss;
 - 2) Motion for a bill of particulars;
 - 3) Petition for relief;
 - 4) Motion for extension;
 - 5) Motion for postponement;
 - 6) Third-party complaint;
 - 7) Intervention;
 - 8) Motion to hear affirmative defenses; and
 - 9) Any pleading or motion which is similar to or of like effect as the foregoing.

2. One of the following is an improper venue for filing the petition for rehabilitation:

- a. RTC which has jurisdiction over the principal office of the debtor as specified in the articles of incorporation or partnership.
- b. RTC of the city or municipality where the head office is located if the principal office is registered with SEC as Metro Manila.
- c. RTC which has jurisdiction over the principal office of any of the member companies in case of a joint petition filed by a group of companies.**
- d. None of the foregoing.

- The petition for rehabilitation shall be filed in the Regional Trial Court which has jurisdiction over the principal office of the debtor as specified in the articles of incorporation or partnership. Where the principal office is registered in the SEC as Metro Manila, the action must be filed in the RTC of the city or municipality where the head office is located. And a joint petition by a group of companies shall be filed in the RTC which has jurisdiction over the principal office of the parent company as specified in its articles of incorporation.

3. Which of the following is uncharacteristic of rehabilitation proceedings on corporations, partnerships and associations under the Rules of Procedure on Corporate Rehabilitation?

- a. Proceedings are in rem.
- b. Jurisdiction is acquired upon commencement of the proceedings.**
- c. Proceedings are non-adversarial.
- d. Proceedings are summary in nature.

- Rehabilitation proceedings on corporations, partnerships and associations under the Rules of Procedure on Corporate Rehabilitation have the following features:
 - 1) The rehabilitation proceedings are proceedings in rem;
 - 2) Jurisdiction over all those affected is acquired upon publication of the notice of commencement of proceedings in any newspaper of general circulation;
 - 3) The proceedings are summary in nature; and
 - 4) The proceedings are non-adversarial.

4. Which of the following claims is covered by the “stay order?”

- a. Claims against letters of credit.
- b. Claims against trust receipts.
- c. Foreclosure by the creditor of property belonging to the debtor under corporate rehabilitation.
- d. None of the foregoing

- The stay order does not cover the following:
 - 1) Claims against letters of credit and similar security arrangements issued by a third party to secure the payment of the debtor’s obligation;
 - 2) Foreclosure by a creditor of property not belonging to a debtor under the corporate rehabilitation; and
 - 3) Commencement of actions or proceedings insofar as it is necessary to preserve a claim against the debtor.

5. Which of the following liabilities is prohibited from being paid by the debtor during its rehabilitation?

- a. Payment to suppliers for goods or services supplied after issuance of the stay order.
- b. Payment in full of the fees of the Rehabilitation Receiver and all persons employed by him.
- c. Payment of new loans obtained for the rehabilitation of the debtor with prior court approval.
- d. Payment of secured loan where security is about to be foreclosed.

- The debtor is prohibited from making any payment of its liabilities, except the following:
 - 1) Payment to the debtor’s suppliers for the goods and services supplied after the issuance of the stay order;
 - 2) Payment in full of all administrative expenses incurred after the issuance of the stay order; and
 - 3) Payment of new loans or other forms of credit accommodations obtained for the rehabilitation of the debtor with prior court approval.

6. Which of the following circumstances will qualify a person to be appointed as a Rehabilitation Receiver?

- a. He is a creditor of the debtor.
- b. He is engaged in a business that competes with debtor.
- c. He was employed as the debtor’s accountant until his resignation three (3) years prior to the filing of the petition for rehabilitation.
- d. None of the foregoing.

- The rehabilitation Receiver shall not take over the management and control of the debtor but shall closely oversee and monitor the operations of the debtor during the pendency of the proceedings. As an

officer of the court, he is primarily tasked to study the best way to rehabilitate the debtor and to ensure that the value of the debtor's property is reasonably maintained pending the determination of whether or not the debtor should be rehabilitated, as well as implement the rehabilitation plan after its approval.

7. Which of the following activities of foreign corporations were held by the Court as "not doing business in the Philippines?"

a. A foreign shipping company loaded cargoes in the Philippines once a year for two consecutive years.

b. A foreign corporation that manufactures cars appointed a Philippine distributor who merely transmits to it orders from buyers, the former fixing the price and the down payment, receiving payment directly from buyers, and shipping the cars directly to the buyers.

c. A foreign corporation licensed a domestic corporation to manufacture its products.

d. A foreign corporation appointed an exclusive distributor of its products in the Philippines, registered its trade name, and sent an officer to conduct a training program four times.

- The following activities were held by the Supreme Court as "not doing business in the Philippines:"
 - 1) A foreign shipping company loaded cargoes in the Philippines once a year for two consecutive years;
 - 2) A foreign corporation purchased copra in the Philippines and modified the contract twice for failure of the seller to deliver;
 - 3) A foreign corporation sold construction equipment in an isolated transaction;
 - 4) A foreign insurance company issued a policy to the consignee of exported steel pipes; and
 - 5) A foreign subsidiary assumed the payment of the loan by a foreign corporation doing business in the Philippines, and the subsequent acquisition by the former of the latter.

8. Which of the following is a characteristic of a "stay order?"

a. The enforcement of claims against the debtor's guarantors and persons jointly liable with the debtor is also stayed.

b. The debtor cannot dispose his properties in the ordinary course of business.

c. The suppliers may discontinue supplying goods or services to the debtor even if they are being paid after the issuance of the stay order.

d. None of the foregoing.

- The court, upon finding the petition to be sufficient in form and substance, shall issue the following orders not later than five (5) working days from the filing of the petition:
 - 1) Appointment of a Rehabilitation Receiver and fixing his bond; and
 - 2) Stay order- staying the enforcement of all claims, whether for money or otherwise, and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and persons not solidarily liable with the debtor.
- The debtor shall be prohibited from selling, encumbering, transferring or disposing its properties, except in the ordinary course of business. The court may declare such transfer as void upon motion or motu proprio. It is likewise prohibited in making any payment of its liabilities.

The suppliers shall also be obliged to continue supplying goods or services to the debtor for as long as payment is made after the issuance of the stay order.

9. The stay order may not be terminated or modified, or the creditor's claim relieved from its coverage where:
- a. Any allegation in the petition, its attachments or verification has ceased to be true.
 - b. A creditor does not have adequate protection over the property securing its claim.
 - c. The debtor's secured obligation is less than the fair market value of the property subject of the stay order.
 - d. The property covered by the stay order is not essential or necessary to the rehabilitation and the creditor's failure to enforce its claim will cause more damage to the creditor than to the debtor.

- The stay order may be terminated or modified, or the creditor's claim relieved from its coverage, under any of the following instances:
 - 1) Any allegation in the petition, its attachments or verification has ceased to be true;
 - 2) A creditor does not have adequate protection over the property securing its claim, such as:
 - a. the debtor fails or refuses to honor a pre-existing agreement with the creditor to keep the property insured;
 - b. the debtor fails or refuses to take commercially reasonable steps to maintain the property; or
 - c. the property has depreciated to an extent that the creditor is undersecured.
 - 3) The debtor's secured obligation is more than the fair market value of the property subject to stay order, and such property is not necessary for the debtor's rehabilitation; or
 - 4) The property covered by the stay order is not essential or necessary to the rehabilitation and the creditor's failure to enforce its claim will cause more damage to the creditor than to the debtor.

10. One of the following is not a legal consequence of the approval of the rehabilitation plan by the court:

- a. The plan and its provisions shall be binding upon the debtor and all persons who may be affected thereby, excluding the creditors who have not participated in the proceedings, or opposed the plan, or their claims have not been scheduled.
- b. The debtor shall comply with the provisions of the plan and shall take all actions necessary to carry out the plan.
- c. Contracts and other arrangements between the debtor and its creditors shall be interpreted as continuing to apply to the extent that they do not conflict with the provisions of the plan.

d. Any compromise on amounts or rescheduling of timing of payments by the debtor shall be binding on creditors regardless of whether or not the plan is successfully implemented.

- The approval of the rehabilitation plan by the court shall result in the following:
 - 1) The plan and its provisions shall be binding upon the debtor and all persons who may be affected thereby, including the creditors, whether or not such persons have participated in the proceedings or opposed the plan or whether or not their claims have been scheduled;
 - 2) The debtor shall comply with the provisions of the plan and shall take all actions necessary to carry out the plan;
 - 3) Payments shall be made to the creditors in accordance with the provisions of the plan;
 - 4) Contracts and other arrangements between the debtor and its creditors shall be interpreted as continuing to apply to the extent that they do not conflict with the provisions of the plan; and
 - 5) Any compromises on amounts or rescheduling of timing of payments by the debtor shall be binding on creditors regardless of whether or not the plan is successfully implemented.

 - The rehabilitation proceedings shall be terminated by the court under any of the following cases:
 - 1) dismissal of the petition;
 - 2) failure of debtor to submit the rehabilitation plan;
 - 3) disapproval by the court of the rehabilitation plan;
 - 4) failure to achieve the desired targets or goals as set forth in the rehabilitation plan;
 - 5) failure of debtor to perform its obligations under the plan;
 - 6) determination that the rehabilitation plan may no longer be implemented in accordance with its terms, conditions, restrictions or assumptions; or
 - 7) successful implementation of the rehabilitation plan.
-

Securities Regulation Code

1) The term “securities” does not include:

- a. Shares of stock
- b. Voting trust certificates
- c. Lease contracts
- d. Bonds

- “Securities” are shares, participation or interests in a corporation or in a commercial enterprise or profit-making venture and evidence by a certificate, contract, instrument, whether written or electronic in character. It includes:

- (1) Shares of stock, bonds, debentures, notes, evidences of indebtedness, asset-backed securities
- (2) Investment contracts, certificates of interest or participation in a profit-making agreement, certificates of deposit for a future subscription
- (3) Fractional undivided interests in oil, gas or other mineral rights
- (4) Derivatives like option and warrant
- (5) Certificates of assignments, certificates of participation, trust certificates, voting trust certificates or similar instruments
- (6) Proprietary or non-proprietary membership certificates in corporations
- (7) Other instruments as may in the future be determined by the Commission

2) Which of the following statements is false?

- a. A “broker” is a person who is engaged in the buying and selling of securities for the account of others.
- b. A “dealer” is a person who is casually engaged in the buying and selling of securities for his own account.
- c. An “associated person of a broker or dealer” does not include the employees of the broker or dealer whose functions are solely clerical or ministerial.
- d. An “associated person of a broker or dealer” does not include his salesmen performing non-discretionary functions.

- A “broker” is a person engaged in the business of buying and selling securities for the account of others, whereas a “dealer” is a person who buys and sells securities for his/her own account in the ordinary course of business. An “associated person of a broker or dealer” is an employee thereof who directly exercises control of supervisory authority, but does not include a salesman, agent or person whose functions are solely clerical or ministerial.

3) Which of the following statements relative to the Commissioners of the Securities and Exchange Commission (SEC) is false?

a. They are appointed by the President of the Philippines to serve a 7-year term each.

b. They must all be natural-born citizens of the Philippines.

c. At least three (3) of the Commissioners must be members of the Philippine Bar.

d. None of the foregoing.

- The SEC is composed of a Chairperson and four Commissioners, appointed by the President for a term of seven years each. Their qualifications are as follows:
 - (1) Natural born citizen of the Philippines
 - (2) At least 40 years of age for the chairperson and at least 35 years of age for the commissioners
 - (3) Of good moral character
 - (4) Of unquestionable integrity
 - (5) Of known probity and patriotism
 - (6) With recognized competence in social and economic disciplines

4) Which of following cases falls under the jurisdiction of the SEC?

a. Petition for insolvency where the corporation, partnership or association has no sufficient assets to cover its liabilities.

b. Petition for suspension of the payments where the corporation, partnership or association having sufficient assets to cover its liabilities foresees the impossibility of meeting them as they fall due.

c. Intra-corporate or partnership controversies.

d. None of the foregoing.

- The following cases now fall under the jurisdiction of the regular courts and no longer with the SEC:
 - (1) Fraudulent devices or schemes employed by the board of directors, business associates, its officers or partners
 - (2) Intra-corporate or partnership controversies (conflict or disagreement between the corporation or partnership and its stockholders or partners)
 - (3) Controversies in election or appointment of directors, trustees, officers or managers of such corporations, partnerships or associations
 - (4) Petition for suspension of payments where the corporation, partnership or association has sufficient assets to cover its debts but foresees the impossibility of meeting them as they fall due
 - (5) Where the corporation, partnership or association has no sufficient assets to cover its debts but is under management of a Rehabilitation Receiver or Management Committee pursuant to P.D No. 902-A.

5) One of the following securities must be registered with the SEC:

a. Securities issued or guaranteed by the Philippine government

b. Certificates issued by a trustee in bankruptcy duly approved by the proper adjudicatory body

c. Bank's own shares of stock

d. None of the foregoing

- A "public offering" refers to the sale of securities to the general public, usually with the intervention of an investment banker. It involves the general public that has little or no knowledge about the securities offered to them, which is why registration and approval of the SEC are necessary. A "private offering" refers to the sale of securities to a limited number of subscribers by the issuer himself. It involves a few

subscribers who may well be familiar with the securities offered to them. The following are five examples of exempt securities that may be sold without need of SEC registration and approval:

- (1) Securities issued or guaranteed by the government of the Philippines
- (2) Securities issued or guaranteed by the government of any country with which the Philippines has diplomatic relations or where there is reciprocity
- (3) Certificates issued by a receiver or trustees in bankruptcy duly approved by the proper adjudicatory body
- (4) Securities or its derivatives whose sale or transfer is under the supervision and regulation of the Insurance Commission, Housing and Land Use Regulatory Board, or the Bureau of Internal Revenue
- (5) Securities issued by a bank, except its own shares of stock

The following are five examples of exempt transactions that do not need SEC registration and approval:

- (1) At any judicial sale, or sale by an executor, administrator, guardian, receiver or trustee in solvency or bankruptcy
- (2) Distribution of securities by a corporation actively engaged in business as stock dividend or other distribution out of surplus
- (3) Sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid
- (4) Broker's transactions, executed upon customer's orders, on any registered exchange or other trading market
- (5) Sale of securities by an issuer to fewer than twenty persons in the Philippines during any twelve-month period

6) The sale of securities requires SEC registration where the qualified buyer is a:

- a. Bank
- b. Investment company
- c. Insurance company
- d. None of the foregoing**

- The registration requirement shall not apply to the sale of securities to any number of the following qualified buyers:
- (1) Bank
 - (2) Registered investment house
 - (3) Insurance company
 - (4) Pension fund or retirement plan maintained by the Government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Banko Sentral to engage in trust functions
 - (5) Investment Company
 - (6) Such other person as the SEC may by rule determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management.

7) Which of the following statement is false?

- a. A "pre-need plan" includes life, pension, education, and interment plans.
- b. All "commodity future contracts" are gambling and against public policy.**

c. A “tender offer” is an offer to acquire at least 15% of any class of any equity security of a listed corporation by filing a declaration to that effect with the SEC.

d. None of the foregoing

- A “pre-need plan” is a contract which provides for the performance of future services or the payment of future monetary considerations at the time of actual need, for which plan holders pay in cash or installment at stated prices, with or without interest or insurance coverage and includes life, pension, education, interment, and other plans which the SEC may from time to time approve. A “commodity futures contract” is an agreement to buy or sell a specified quantity and grade of a commodity at a future date at a price established at the floor of the exchange. A contract with a commodity futures broker for the purchase and sale of commodities for future delivery is gambling and against public policy where the parties did not intend actual delivery but merely speculated on the rise and fall of the price of the commodities. The customer is entitled to the refund of what was paid to the broker. Any person or group of persons acting in concert who intends to acquire at least 15% of any class of any equity security of a listed corporation or of any class of any security of a corporation with assets of at least ₱50,000,000 and having 200 or more stockholders with at least 100 shares each or who intends to acquire at least 30% of such equity over a period of 12 months shall make a tender offer to stockholders by filing with the SEC a declaration to that effect.

8) Which of the following persons is exempted from registration with the SEC before he engages in the business of buying and selling of securities in the Philippines?

- a. Brokers and dealers
- b. Associated persons of the broker or dealer
- c. Salesmen of broker or dealer
- d. None of the foregoing**

- No person shall engage in the business of buying or selling securities in the Philippines as a broker or dealer, or act as a salesman, or an associated person of any broker or dealer unless registered as such with the SEC. No registered broker or dealer shall employ any salesman or any associated person, and no issuer shall employ any salesman, who is not registered as such with the SEC.

9) X connived with several brokers to engage among themselves in the buying and selling of his securities in order to create false appearance of active trading with respect to his securities at the stock exchange. This transaction is what to is known as:

- a. Wash sale**
- b. Short sale
- c. Insider trading
- d. None of the foregoing

- A “wash sale” is a sale of stocks or securities at a loss whereby the seller acquired by purchase or exchange substantially identical stocks or securities within 30 days before or 30 days after such sale (known as the “61-day period”). The seller must not be a dealer in stocks or securities, or even if he is, the transaction was not made in the

ordinary course of the business of such dealer. It is a sale in which no change in beneficial ownership of the security is effected, the purpose of which is to create a false or misleading appearance of active trading or market for such security.

10) An “exchange” is an organized marketplace or facility that brings together buyers and sellers and executes trades of securities and/ or commodities.

a. It may be incorporated as a stock or non-stock entity.

b. It must engaged solely in the business of operating an exchange, unless exempted under the rules and regulations adopted by the SEC.

c. The brokers in the board of the Exchange shall comprise of not more than 49% of such board.

d. None of the foregoing.

- The registration of an Exchange shall be granted upon compliance, among others, with the following provisions:
 - (1) That the applicant is organized as a stock corporation
 - (2) That the applicant is engaged solely in the business of operating an exchange
 - (3) That no person or industry/business group may beneficially own or control, directly or indirectly, more than 5% or 20%, respectively, of the voting rights of the exchange
 - (4) That the brokers in the board of the Exchange shall comprise not more than 49% of such board
 - (5) That the board of the Exchange shall include in its composition the President of the Exchange and not less than 51% of the remaining members of the board to be comprised of 3 independent directors and persons who represent the interests or issuers, investors, and other market participants
 - (6) That the President and other management of the Exchange shall consist only of persons who are not members and are not associated in any capacity, directly or indirectly, with any broker, dealer or member of listed company of the Exchange
 - (7) That the transactions on the Exchange shall be transparent
-

New Central Bank Act

1) Under R.A No. 7653, otherwise known as the New central Bank Act, whose appointment among the following members of the Monetary Board must be confirmed by the Commission on Appointments?

- a. **Governor of Bangko Sentral**
 - b. Member from Cabinet
 - c. Members from private sector
 - d. All of the foregoing must be confirmed
- The Monetary Board exercise the powers and functions of the Bangko Sentral ng Pilipinas (BSP). It is composed of seven (7) member appointed by the President of the Philippines for a term of six (6) years:
- 1) Governor of the Bangko Sentral – acts as Chairman of the Monetary Board; he shall be head of a department and his appointment is subject to confirmation by the Commission on Appointments.
 - 2) Member of the Cabinet; and
 - 3) Five (5) member coming from the private sector who shall serve full-time.
- The members of the Monetary Board must be:
- 1) natural-born citizens of the Philippines;
 - 2) at least 35 years if age, with the exception of the Governor who should be at least 40 years of age;
 - 3) of good moral character;
 - 4) of unquestionable integrity, known probity and patriotism; and
 - 5) with recognized competence in social and economic disciplines.

2) Who among the following officers from the private sector is qualified to be a member of the Monetary Board without need to resign or divest himself of his position and interest?

- a. Director of STV Banking Corporation
 - b. Area Manager of TVW Pawnshop, Inc.
 - c. **President of WXY Building & Loan Association**
 - d. None of the foregoing
- A member of the Monetary Board is disqualified from being a director, officer, employee, consultant, lawyer, agent or stockholder of any bank, quasi-bank or any other institution which is subject to supervision or examination by the Bangko Sentral ng Pilipinas. Therefore, X shall resign from, and divest himself of any and all interests in such institution before assumption of office as a member of the Monetary Board.
- Moreover, the Bangko Sentral ng Pilipinas is prohibited to do the following:
- 1) to acquire shares of any kind or accept them as collateral;
 - 2) to participate in the ownership or management of any enterprise, either directly or indirectly; and
 - 3) to engage in development banking or financing; provided, that outstanding loans obtained or extended for development financing shall not be affected by the prohibition.
- The General Banking Act has transferred the supervisory and regulatory powers over building and loan associations from the Bangko Sentral ng Pilipinas to the Home Insurance and Guaranty Corporation

(HIGC). Sections 39-55 of the said law still govern the building and loan associations but their reference to the Bangko Sentral ng Pilipinas and Monetary Board shall be deemed to refer to the Home Insurance and Guaranty Corporation.

3) Which of the following is a feature of conservatorship?

- a. The conservator takes over the management of the bank whenever the bank fails or is unwilling to maintain its liquidity
- b. The conservatorship may exceed one year
- c. Conservatorship shall always precede receivership
- d. The conservator must be an official of the BSP

- Whenever the bank is in a state of continuing inability or unwillingness to maintain its liquidity, the Monetary Board of the Bangko Sentral ng Pilipinas may appoint a conservator to take charge of the assets, liabilities and management of such bank for the protection of depositors and creditors. The conservatorship shall be terminated when the Monetary Board is satisfied that the bank can operate on its own or when liquidation is warranted. The conservatorship shall not exceed one (1) year and the conservator may come from the Bangko Sentral ng Pilipinas itself or from the outside, the latter being entitled to a salary.

4) Under the New Central Bank Act, Which of the following cases is not a justifiable ground for placing a bank under the receivership of the Philippine Deposit Insurance Corporation (PDIC) summarily and without need for prior hearing?

- a. Inability to meet the withdrawals of depositors during a period of financial panic in the community.
- b. Insufficient realizable assets to meet its liabilities.
- c. Inability to continue without probable losses to its depositors and creditors.
- d. Willful violation of cease and desist order involving fraudulent acts.

- The Monetary Board may summarily and without need for prior hearing forbid the bank from doing business and designate the Philippine Deposit Insurance Corporation (PDIC) as receiver (for quasi-banks, any competent person may be the receiver) in any of the following cases:
 - 1) Inability to pay its liabilities as they become due in the ordinary course of business, unless due to extraordinary demand induced by financial panic in the banking community;
 - 2) Insufficient realizable assets to meet its liabilities;
 - 3) Inability to continue without probable losses to its depositors and creditors; or
 - 4) Willful violation of a cease and desist order involving acts or transactions amounting to fraud or a dissipation of the bank's assets.
- The receiver shall take charge of the assets and liabilities and shall determine within ninety (90) days from take-over whether the bank shall be rehabilitated or permitted to resume its operations, or shall be liquidated, subject to the approval of the Monetary Board.

5. Which of the following statements relative to a bank conservator and bank receiver under the New Central Bank Act is false?

- a. Both take charge of the assets and liabilities of the subject bank.
- b. Both have the power to rehabilitate or liquidate the corporate life of the subject bank.

- c. Both need not be officers/ employees of the Bangko Sentral.
- d. None of the foregoing.

- Both the bank conservator and the bank receiver do not have the power to liquidate banks. Their power is recommendatory subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas.
- The designation of a conservator is not as precondition to the designation of a receiver.

6. Which of the following statements relative to the replacement of notes and coins under the New Central Bank Act is true?

a. Notes and coins may be called in for replacement by the Bangko Sentral when they are more than ten (10) years old and five (5) years old, respectively.

b. Notes and coins which are called in for replacement cease to be legal tender upon the date of call.

c. Notes and coins become demonetized one (1) year from the date of call.

d. Notes and coins that have been called in for replacement and have ceased to be legal tender may still be exchange at par value for a period of one (1) year or for a longer period as may be prescribed by the Monetary Board.

- The Bangko Sentral ng Pilipinas may call in for replacement notes of any series or denomination which are more than five (5) years old and coins which are more than (10) years old.
- Notes and coins call in for replacement in accordance with this provision shall remain legal tender for a period of one (1) year from the date of call. After this period, they shall cease to be legal tender but during the following year, or for such longer period as the Monetary Board may determine, they may be exchange at par and without charge in the BSP and by agents duly authorized by the BSP for this purpose. After the expiration of this latter period, the notes and coins which have not been exchanged shall cease to be a liability of the BSP and shall be demonetized. The BSP shall also demonetized all notes and coins which have been called in and replaced.

7. Which of the following cases constitutes payment in legal tender in accordance with the New Central Bank Act?

a. Manager's check duly signed by the bank manager and already debited against the drawer's account, with the creditor's name written as the payee thereof.

b. P200.00 payment consisting of the following: P1.00 coins totaling P80.00; and P0.25 & P0.1 coins totaling P120.

c. Notes offered for payment to a creditor on July 2, 200B, already called in for replacement by the Bangko Sentral ng Pilipinas on July 1, 200A.

d. None of the foregoing.

- All notes and coins issued by the BSP shall be fully guaranteed by the Government of the Republic of the Philippines and shall be legal tender in the Philippines for all debts, both public and private; provided that, unless otherwise fixed by the Monetary Board, coins shall be legal tender in amounts not exceeding One Thousand Pesos (P1,000.00) for denominations of P1.00 and above, and in amount not exceeding One Hundred Pesos (P100.00) for denominations of Twenty-five Centavos or less.
- Checks representing demand deposits do not have legal tender power and their acceptance in the payment of debts, both public and private,

is at the option of the creditor. However, a check which has been cleared and credited to the account of the creditor shall be equivalent to a delivery to the creditor of cash in an amount equal to the amount credited to his account.

- The notes offered for payment to a creditor on July 1, 200B which were already called in for replacement by the BSP on July 1, 200A still constitute legal tender because notes and coins called in for replacement shall remain legal tender for a period of one (1) year from the date of call.

8. The international reserves of the Bangko Sentral may include but shall not be limited to the following assets:

- a. Foreign notes and coins
- b. Demand and time deposits in commercial banks abroad.
- c. Both (a) and (b)**
- d. Neither (a) nor (b)

- The international reserves of the Bangko Sentral ng Pilipinas may include but shall not be limited to the following assets:
 - 1) gold; and
 - 2) assets in foreign currencies in the form of documents and instruments customarily employed for the international transfer of fund; demand and time deposits in central banks, treasuries and commercial banks abroad; foreign government securities; and foreign notes and coins.

9. The term “deposit substitutes” under the New Central Bank Act includes:

- a. Promissory notes
- b. Banker’s acceptances
- c. Both (a) and (b)**
- d. Neither (a) nor (b)

- The term “deposit substitutes” is defined as an alternative form of obtaining funds from the public, other than deposits, through the issuance, endorsement, or acceptance of debt instrument for the borrower’s own account, for the purpose of relending or purchasing of receivables and other obligations. These instruments may include, but need not be limited to, banker’s acceptances, promissory notes, participations, with recourse, and repurchase agreements. The Monetary Board shall determine what specific instruments shall be considered as deposit substitutes.
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General Banking Act

1. The Bangko Sentral ng Pilipinas exercises supervisory and regulatory powers over:

- a. Finance companies
- b. Pawnshops**
- c. Building and loan associations
- d. Homeowner's associations

- The BSP no longer possesses regulatory powers over finance companies without quasi-banking functions and other institutions performing similar functions as provided in existing laws, the same now being assumed by the SEC.
- The General Banking Act has transferred the supervisory and regulatory powers over the building and loan associations from the BSP to the Home Insurance and Guaranty Corporation (HIGC). Sections 39-55 of the said law still govern the building and loan associations but their reference to the BSP and to the Monetary Board shall be deemed to refer to the HIGC.
- Pawnshops are non-bank financial intermediaries which are governed and regulated by the BSP.

2. Under R.A. No. 8791, otherwise known as the General Banking Act, which of the following statements relative to banks is false?

- a. Banks must be stock corporations with par value shares.
- b. Banks obtain its funds from the public, which shall mean twenty (20) or more persons.
- c. Bank directors and officers can borrow money or act as guarantors in their banks if approved in writing by the majority of all the directors and the BSP is furnished with a copy thereof.
- d. The board of directors of banks must consist of at least one (1) independent director who is not connected with such bank or its affiliates.**

- The General Banking Act of 2000 defines a bank as an entity engaged in the lending of funds obtained in the form of deposits.
- A quasi-bank, on the other hand, is an entity engaged in the borrowing of funds through the issuance, endorsement or assignment with recourse or acceptance of deposit substitutes for purposes of re-lending or purchasing of receivables and other obligations.
- The Monetary Board may authorize the organization of a bank or quasi-bank, subject to the following conditions:
 - 1) That the entity is a stock corporation;
 - 2) That its funds are obtained from the public, which shall mean twenty (20) or more persons; and
 - 3) That the minimum capital requirements prescribed by the Monetary Board for each category of banks are satisfied.
- No director or officer of any bank shall, directly or indirectly, for himself or for another, borrow from such bank nor shall he become a guarantor, endorser or surety for loan from such bank to others, or in any manner be an obligor or incur any contractual liability to the bank, except with the written approval of the majority of all the bank

directors and a copy of such written approval to be transmitted forthwith to the Bangko Sentral.

- An “independent director” is a person other than an officer or employee of the bank. Its subsidiaries or affiliates or related interests. The General Banking Law requires the number of the board of directors in banks to be not less than five (5) nor more than fifteen (15), two (2) of whom shall be independent directors.

3. Which of the following is not a characteristic of a bank?

- a. Its board of directors may conduct meetings through video-conferencing.
- b. The Monetary Board, after due notice, has the power to disqualify, suspend or remove any bank director or officer found unfit for his position.
- c. It can only issue par value shares of stock

d. It must dispose its treasury shares within one (1) year from their acquisition.

- The General Banking Act expressly allows board meetings of the bank directors to be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing.
- Under the “fit and proper rule,” as applied to the board of directors and officers of banking institutions, the Monetary Board shall prescribe, pass upon and review the qualifications of the bank directors and officers, taking into account their integrity, experience, education, training and competence. The Monetary Board, after due notice, has the power to disqualify, suspend or remove any bank director or officer found unfit for his position.
- Banks cannot issue no-par value stocks because the General Banking Law expressly provides that banks shall issue par value stocks only.
- As a general rule, banks are prohibited from purchasing or acquiring its own shares or accepting the same as security for a loan. Exception: when authorized by the Monetary Board; provide, that the treasury shares shall be sold or disposed of within six (6) months from the time of their purchase or acquisition.

4. Which of the following may be legally done by a bank?

a. Engage in insurance business.

b. Enter into contracts of deposit on its safety deposit boxes.

c. Hire casual employees in the conduct of its business involving deposits.

d. Enter into stipulations exempting it from liability for damages in case of error or delay in transmitting telegraphic transfer.

- The General Banking Act prohibits a bank from directly engaging in insurance business as the insurer.
- The General Banking Act provides that no bank shall employ casual or non-regular personnel or too lengthy probationary personnel in the conduct of its business involving bank deposits, consistent with the provisions of R.A. 1405, otherwise known as the Bank Secrecy Law.
- Any stipulation exempting the bank from liability for damages in case of error or delay in transmitting a telegraphic transfer is void because it is contrary to public policy.
- A bank may enter into contracts of deposit on its safety deposit boxes. But any stipulation that it shall not be held liable as a depository for the contents of the safety deposit boxes is void and contrary to law and public policy.

5. XYZ Corporation obtained a loan from ABC Bank secured by real estate mortgage on its land. XYZ Corporation defaulted payment, and so the mortgage was foreclosed and the land was sold at public auction. The redemption period of XYZ Corporation is:

- a. Within three (3) months from the date of the auction sale.
- b. Within one (1) year from the date of the auction sale
- c. Until the registration of the certificate of foreclosure sale with the Register of Deeds, but in no case exceeding three (3) months.**
- d. Until the registration of the certificate of foreclosure sale with the Register of Deeds, but in no case exceeding one (1) year.

- Juridical persons whose property is being sold pursuant to an extra-judicial foreclosure shall have the right to redeem the property until, but not later than, the registration of the certificate of foreclosure sale with the Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier.

6. Assume the same facts in Q. 389, except that the mortgagor is X, an individual person. The redemption period of X is:

- a. Within three (3) months from the date of the auction sale.
- b. Within one (1) year from the date of the auction sale.**
- c. Until the registration of the certificate of foreclosure sale with the Register of Deeds, but in no case exceeding three (3) months.
- d. Until the registration of the certificate of foreclosure sale with the Register of Deeds, but in no case exceeding one (1) year.

- Foreclosure of real estate mortgage, whether judicially or extra-judicially, entitles the mortgagor-debtor to redeem the property within one year after the auction sale. The purchaser at the auction sale shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of auction sale.

7. BCD Banking Corporation was able to acquire a house and lot that was mortgage to it in good faith by way of security for a loan. As a general rule, the bank is required by law to dispose the real property within a period of:

- a. Six (6) months
- b. One (1) year
- c. Five (5) years**
- d. Ten (10) years

- A bank is required by law to dispose the real property within a period of five years or as may be prescribed by the Monetary Board of the Bangko Sentral ng Pilipinas. However, the bank may, after said period, continue to hold the real property for its own use subject to the limitation that its total investment in real estate and improvements thereof including bank equipment shall not exceed 50% of the bank's combined capital accounts.

Bank Secrecy Law

- 1) Under R.A No. 1405, otherwise known as the Bank Secrecy Law, which of the following acts of a bank official is covered by the Bank Secrecy Law?
- Disclosing the amount of deposit of a judgment debtor to the court sheriff who is executing a garnishment order against him
 - Disclosing the name of the drawer of a check to the payee
 - Disclosing the amount of deposit of a taxpayer to a duly authorized BIR officer who is examining his income tax liability
 - Disclosing the amount of deposit exceeding ₱500,000 in one banking day to the Anti-Money Laundering Council
- R.A No. 1405 (The Bank Secrecy Law) mandates that all deposits of whatever nature with banks or banking institutions in the Philippines including investments in bonds issued by the Government of the Philippines, its political subdivisions and its instrumentalities, are of absolute confidential nature and may not be examined, inquired or looked into by any person, government official, bureau or office, subject to a few exceptions as provided by law. Bank deposits may be inquired, examined and looked into in any of the following cases:
- Written permission of the depositor
 - Impeachment cases
 - Court order in bribery and dereliction of duty cases against public officials, including cases of unexplained wealth and money laundering
 - Deposit is the subject matter of the litigation
 - Anti-graft cases, as provided in the Anti-graft law
 - Deposit may be inquired into by AMLC without a court order in cases of kidnapping for ransom, drug trafficking and hijacking, destructive arson and murder
 - Reporting of covered transactions or suspicious transactions by banks and other covered institutions to the AMLC
 - Deposit of a decedent in order to determine his gross estate
- The Bank Secrecy Law does not preclude a bank deposit from being lawfully garnished in order to satisfy a judgment. The disclosure is merely incidental to the execution of a court judgment. Revealing the identity of the drawer does not fall within the ambit of the Bank Secrecy Law. There is no inquiry about the details and balance of the drawer's deposit. There is merely an inquiry to ascertain the identity of the drawer of the check. The Anti-Money Laundering Act requires a covered transaction (total amount exceeding ₱500,000 within 1 banking day) to be reported by covered institutions to the Anti-Money Laundering Council. Disclosing the amount of deposit of a taxpayer to a duly authorized BIR officer who is examining his income tax liability violates the Bank Secrecy Law. What is covered by the exceptions is the examination of the bank deposit by the BIR official for purposes of determining the gross estate of the decedent-depositor.

2) X, a government employee, purchased Land Bank bonds with a total value of ₱1,000,000 and receives bi-annual interest income from his investment. Under the Bank Secrecy Law, X's investment may be inquired into without need of a court order by the:

- a. Public Prosecutor handling an estafa case against
- b. BIR officer auditing the value-added taxes of X
- c. Credit investigator of a lending institution where X applied for a loan
- d. **None of the foregoing**

- The confidentiality of bank deposits does not only cover peso-deposits in banks. It also extends to investments in bonds issued by the Government of the Philippines, its political subdivisions and its instrumentalities and to foreign currency deposits.

3) X maintained the following deposits at CDF Bank:

- ₱600,000 - savings deposit in the name of "X and/or Y"
- 200,000 - time deposit in the name of "XYZ Partnership"
- 300,000 - current account in the name of "X"

ABC Bank was liquidated by the Banko Sentral ng Pilipinas due to financial reverses. How much can X personally recover from the Philippine Deposit Insurance Corporation (PDIC)?

- a. ₱900,000
- b. ₱600,000
- c. **₱500,000**
- d. ₱300,000

- Under R.A No. 9302 (Philippine Insurance Corporation Act), the Philippine Deposit Insurance Corporation (PDIC) is a government corporation tasked in insuring the deposit liability of banks up to the amount of ₱500,000 per depositor; provided, that no owner or holder of any negotiable certificate of deposit shall be recognized as a depositor entitled to the rights provided by the Act unless his name is registered as the owner or holder thereof in the books of the issuing bank. This Insurance is compulsory, the premiums thereof being paid by the banks to the PDIC. The insurance with the Philippine Deposit Insurance Corporation puts the ceiling at ₱500,000 for each depositor and not for each account maintained in the bank.

4) R.A Act No. 3765, otherwise known as the Truth in Lending Act, applies to:

- a. Pawnshops
- b. Small-loan money lenders
- c. **Both a and b**
- d. Neither a nor b

- R.A No. 3765 (The Truth in Lending Act) mandates that any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth the following information:
 - (1) The cash price or delivered price of the property or service to be acquired
 - (2) The amounts, if any, to be credited as down payment and/or trade in;
 - (3) The difference between the amounts in a and b
 - (4) The itemized charges in connection with the transaction
 - (5) The total amount to be financed
 - (6) The finance charge expressed in terms of pesos and centavos

(7) The percentage of the finance charge in relation to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance

Finance charge includes interest, fees, service charges, discounts, and such other charges, discount, and such other charges incident to the extension of credit as the Monetary Board may by regulation prescribed. A creditor who, in connection with a credit transaction, fails to disclose to any person any information in violation of the Truth in Lending Act shall be liable to such person in the amount of P100 or in an amount equal to twice the finance charged by the creditor, whichever is higher, but not exceeding P2,000 on any credit transaction. An action to recover such penalty may be brought within one year from the date of the violation before any court of competent jurisdiction.

5) Under R.A No. 6426, otherwise known as the Foreign Currency Deposit Act, which of the following statements relative to foreign currency deposits is false?

- a. The foreign currency deposits maintained abroad by Filipino citizens are not covered by the provisions of the Act
 - b. Depositary banks which have been qualified by the Monetary Board to function under the expanded foreign currency deposit system are exempt in maintaining the fifteen percent foreign currency cover for their liabilities in the form of foreign currency deposit with the Bangko Sentral
 - c. Foreign currency deposits are of absolutely confidential nature, except upon the written permission of the depositor
 - d. Foreign currency deposits are subject to attachment, garnishment, or any other order or process of the court
- R.A 6426 (Foreign Currency Deposit Act) is an act instituting a foreign currency deposit system in the Philippines. Hence, foreign currency deposits that are maintained in banks abroad are beyond the coverage of this law. The depositary banks shall maintain at all times a 100% percent foreign currency cover for their liabilities, of which cover at least 15% shall be in the form of foreign currency deposit with the Bangko Sentral ng Pilipinas, and the balance in the form of foreign currency loans and securities. However, depositary banks which have been qualified by the Monetary Board to function under the expanded foreign currency deposit system shall be exempt from the said 15% cover requirement. All foreign currency deposits are declared as and considered of an absolutely confidential nature and, except upon the written permission of the depositor, in no instance shall foreign currency deposits be examined, inquired or looked into by any person, government official, bureau or office whether judicial or administrative or legislative, or any other entity whether public or private; Provided, that said foreign currency deposits shall be exempt from attachment, garnishment, or any other order or process of any court, legislative body, government agency or administrative body whatsoever.
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Anti-Money Laundering Act

1) Under R.A 9160, as amended, otherwise known as the Anti-Money Laundering Act (AMLA), the Anti-Money Laundering Council's membership does not include:

- a. Secretary of Finance
- b. Governor of the Bangko Sentral ng Pilipinas
- c. Insurance Commissioner
- d. Chairman of the Securities and Exchange Commission

- The Anti-Money Laundering Council (AMLC) is composed of the following:
 - (1) Governor of BSP
 - (2) Insurance Commissioner - member
 - (3) Chairman of SEC - member

2) The AMLA, penalizes both money laundering and unlawful activity, which of the following statements relative to both offenses is false?

- a. A person may be charged with and convicted of both the offense of money laundering and the unlawful activity
- b. Where a person is charged with both the offense of money laundering and the offense of unlawful activity, the proceeding relating to the former shall be given precedence than the proceeding relating to the latter
- c. An unlawful activity includes any act or omission or series of combination thereof involving or having direct relation, among others, to kidnapping for ransom, drug trafficking, plunder, jueteng and masiao
- d. The offense of money laundering committed by public officers and private persons in conspiracy of such public officers shall be under the jurisdiction of the Sandiganbayan.

- The Anti-Money Laundering Act (AMLA) punishes the following offenses:
 - 1) Crime of money laundering;
 - 2) Failure to keep records;
 - 3) Failure to report covered transactions;
 - 4) Malicious reporting; and
 - 5) Breach of confidentiality.
- Money laundering is a crime whereby the proceeds of an unlawful activity are transacted, thereby making them appear to have originated from legitimate sources. It is committed by the following:
 - 1) Any person knowing that any monetary instrument or property represents, involves, or relates to, the proceeds of any unlawful

activity, transacts or attempts to transact said monetary instrument or property;

2) Any person knowing that any monetary instrument or property involves the proceeds of any unlawful activity, performs or fails to perform any act as a result of which he facilitates the offense of money laundering referred to in Paragraph (1) above; and

3) Any person knowing that any monetary instrument or property is required under the AMLA to be disclosed and filed with the AMLC, fails to do so.

- A person may be charged with and convicted of both the offense of money laundering and the unlawful activity. Any proceeding relating to the unlawful activity, however, shall be given precedence over the prosecution of any offense or violation of the AMLA without prejudice to the freezing and other remedies provided.
- The Regional Trial Court (RTC) shall have the jurisdiction to try all cases on money laundering. Those committed by public officers and private persons who are in conspiracy with such public officers shall be under the jurisdiction of the Sandiganbayan.
- An “unlawful activity” refers to any act or omission or series or combination thereof involving or having direct relation to the following:
 - 1) Kidnapping for ransom;
 - 2) Drug trafficking;
 - 3) Anti-Graft and Corrupt Practices Act;
 - 4) Plunder;
 - 5) Robbery and extortion;
 - 6) Jueteng and masiao;
 - 7) Piracy on the high seas;
 - 8) Qualified theft;
 - 9) Swindling;
 - 10) Smuggling;
 - 11) Violations of E-Commerce Act;
 - 12) Hijacking and other violations under R.A. No. 6235;
 - 13) Destructive arson and murder, including those perpetuated by terrorist against non-combatant persons and similar targets;
 - 14) Fraudulent practices and other violations under the Securities Regulation Code;
 - 15) Act of terrorism; and
 - 16) Felonies or offenses of a similar nature that are punishable under the penal laws of other countries.

3) Under the Anti-Money Laundering Act, a “covered transaction” and a “suspicious transaction” must be reported by the “covered institutions”(those under the supervision and regulation of the Bangko Sentral ng Pilipinas, the Insurance Commissioner and the Securities and Exchange Commission) within five working days from the occurrence thereof. A “covered transaction” is a transaction in cash or other equivalent monetary instrument with a total amount of:

- a. ₱250,000 or more in one banking day
- b. ₱500,000 or more in one banking day
- c. **Over ₱500,000 in one banking day**
- d. ₱1,000,000 or more in one banking day

- The term “covered institutions” refers to the following:

- 1) banks, non-banks, quasi-banks, trust entities, and all other institutions and their subsidiaries and affiliates supervised and regulated by the Bangko Sentral ng Pilipinas;
- 2) insurance companies and all other institutions supervised and regulated by the Insurance Commissioner; and
- 3) securities, dealers, brokers, salesmen, investment houses and other similar entities managing securities or rendering services as investment agent, advisor, or consultant; mutual funds, close-ends investment companies and other similar entities; foreign exchange corporations, money changers, money payment, remittance, and transfer companies and other similar entities; and entities administering or otherwise dealing in currency, commodities or financial derivatives based thereon, valuable objects, cash substitutes and other similar monetary instruments or property supervised or regulated by the Securities and Exchange Commission.

- A “covered transaction” is a transaction in cash or other equivalent monetary instrument involving a total amount in excess of P500,000 within one banking day.
- A “suspicious transaction” is a transaction with covered institution, regardless of the amounts involved, where any of the following circumstances exist:
 - (1) there is no underlying legal or trade obligation, purpose or economic justification;
 - (2) client is not properly identified;
 - (3) amount involved is not commensurate with the business or financial capacity of client;
 - (4) client’s transaction is structured in order to avoid being subject of reporting requirements of the Act;
 - (5) any circumstance relating to the transaction is observed to deviate from the profits of client or his past transactions with the covered institution;
 - (6) transaction is related to an unlawful activity or offense under the AMLA about to be, is being, or has been committed; or
 - (7) any transaction that is similar or analogous to any of the foregoing
- The covered institutions are required to report to the AMLC all covered transactions and suspicious transactions within five working days from occurrence thereof, unless the Supervising Authority prescribes a longer period not exceeding ten working days. The reporting shall not be deemed a violation of R.A. No. 1405 as amended (Bank Secrecy Law), R.A. No. 6426 as amended, R.A. No. 8791 and other similar laws; provided, that they are prohibited from communicating to any person any information relative to the report.

4) The Court of Appeals, upon application ex parte by the Anti-Money Laundering Council (AMLC) and after determination that probable cause exist that any monetary instrument or property is in any way related to an unlawful activity, may issue a freeze order which shall be effective immediately. The freeze order shall be for a period of (unless extended by the Court)

- a. Ten days
 - b. **Twenty days**
 - c. Thirty days
 - d. Sixty days
- The Court of Appeals, upon application ex parte by the AMLC and after determination that probable cause exists that any monetary

instrument or property is in any way related to an unlawful activity, may issue a freeze order which shall be effective immediately. The freeze order shall be for a period of twenty days unless extended by the Court.

5) The AMLC may inquire into or examine bank accounts only with an order of a competent court in cases involving:

- a. Kidnapping for ransom
- b. Drug trafficking
- c. Hijacking
- d. **Jueteng and masiao**

- Notwithstanding the provisions of R.A. No. 1405 (Bank Secrecy Law), the AMLC may inquire into or examine bank accounts upon order of any competent court when it is established that there is probable cause that the deposits or investments are related to an unlawful activity, except that no court order shall be required in cases involving the following:
- (1) kidnapping for ransom;
 - (2) drug trafficking;
 - (3) hijacking
 - (4) destructive arson and murder; and
 - (5) BSP examination (Sec. 11, A.M.L.A).

6) To provide legal safeguards against any possible harassment to candidates for electoral offices, which of the following acts shall be prohibited during an election period?

- a. **Provisional remedy of attachment on assets of the candidate**
 - b. Barring prosecution of money laundering cases filed before the election period
 - c. Both a and b
 - d. Neither a nor b
- In order to avoid possible harassment to the candidates for electoral office, the following acts shall be prohibited during the election period:
- (1) Filing of money laundering cases against the candidate; provided, that those filed before the election period shall not be barred from prosecution;
 - (2) Provisional remedy of attachment on assets of the candidate; and
 - (3) Judgment of forfeiture of assets to the prejudice of the candidate.

---Nothing follows---