

**\*\*Title:\*\*** Muñasque vs. Court of Appeals, Galan, Tropical Commercial, & Pons

**\*\*Facts:\*\***

1. Petitioner Elmo Muñasque entered a contract with Tropical Commercial Co., Inc. through its Cebu Branch Manager Ramon Pons to remodel a portion of its building. Celestino Galan was named as a partner in the contract, although Muñasque did not expect any consideration from Galan.
2. Under the contract, Tropical agreed to a payment plan to Muñasque: an initial P7,000.00 and subsequent P6,000.00 payments every 15 days totalling P25,000.00.
3. On January 9, 1967, Tropical issued a P7,000.00 check, which Muñasque endorsed to Galan to deposit for project use. However, Galan misappropriated P6,183.37 out of the P7,000.00 for personal use.
4. When the second P6,000.00 check was issued, Muñasque refused to endorse it due to Galan's prior misappropriation. Tropical then issued the second check to "Galan and Associates" allowing Galan to cash it.
5. Despite Galan's mismanagement, Muñasque completed the construction by borrowing P12,000.00 from a friend, reaching a total expenditure of P34,000.00.
6. Muñasque filed a complaint for the amounts covered by the first and second checks, additional construction costs, and moral and exemplary damages, against respondents Tropical, Pons, and Galan.
7. The trial court held Muñasque and Galan jointly and severally liable to intervenors Cebu Southern Hardware and Blue Diamond Glass Palace and absolved Tropical Commercial Co. and Pons from liability.
8. The trial court, upon reconsideration, amended judgment to include interest and attorney's fees payable to intervenors.
9. The Court of Appeals affirmed the trial court's decision, modifying the liability from "jointly and severally" to "jointly."

**\*\*Issues:\*\***

1. Whether a partnership existed between Muñasque and Galan.
2. Whether Galan is accountable to Muñasque for misappropriating P13,000.00.

3. Whether the payments by Tropical to Galan were valid.

**Court's Decision:**

1. **Existence of Partnership:**

- The Court affirmed the existence of a partnership between Muñasque and Galan based on the contract naming them collectively as "Galan and Muñasque." The court noted that the initial partnership relationship created legitimate appearance to third parties, including Tropical.

2. **Accountability for Misappropriation:**

- Although Galan misappropriated funds, the claim against him for personal liability on malversation was not an issue agreed upon pre-trial. The court decided Muñasque must adhere to the pre-trial agreements and he can only recover from Galan through their joint partnership liability.

3. **Validity of Payments by Tropical:**

- The Court held the payments to Galan were valid as Tropical understood both to be partners. When Galan received and misused funds, it maintained Tropical was justified to assume joint authority in partnership representation.

The court amended the trial court's decision to make the liability of Muñasque and Galan "joint and solidary" under the obligations causing loss or misapplication per Article 1816 in concert with Articles 1822 and 1823 of the Civil Code (solidary liability for acts of the partnership). Muñasque could reclaim from Galan amounts he paid under partnership liabilities.

**Doctrine:**

- **Partnership Formation:** A partnership can exist even when one party denies intent if actions and representations to third parties suggest a partnership.

- **Good Faith Payments:** Payments made to a partner appearing authorized bind the entire partnership.

- **Solidary Liability:** Under specific conditions, partners are solidarily liable for partnership obligations under Articles 1816, 1822, and 1823 of the Civil Code.

**Class Notes:**

- **Key Principles of Partnership Law:**

- Article 1816, Civil Code: Partners are liable pro rata post-exhaustion of partners' assets.

- Article 1822, Civil Code: Liability for wrongful acts in partnership name.

- Article 1823, Civil Code: Liability for misapplication of third-party funds by any partner.
- Article 1824, Civil Code: Solidary liability of all partners for debt arising from wrongful acts in the partnership.

- **Applications:**

- Actions and agreements inclusive of another person as a partner create apparent partnership.
- Creditor reliance on partnership's apparent authority can bind all partners solidarily.

**Historical Background:**

- The ruling emphasizing the protection of creditors under apparent partnership authority and reiteration of civil code solidary liability provisions reflects a deep-seated principle in partnership law. During its period (1970s), the ruling reinforced commercial transaction security by holding entities accountable based on perceived partnership agreements despite internal conflicts. This is pertinent in construction and commercial projects, markers of Philippines' economic activities post-World War II revival and prior to martial law declaration in 1972. The decision thus maintains judicial consistency while protecting legitimate creditors' expectations.