

****Title:**** Trinidad vs. Acapulco | GR No. 42518

****Facts:****

On May 6, 1991, Estrella Acapulco filed a complaint before the RTC seeking the nullification of a car sale to Hermenegildo Trinidad. Acapulco alleged that Primitivo Cañete requested her to sell a Mercedes Benz for P580,000.00 but offered it to her for P500,000.00. Trinidad borrowed the car and later instructed Acapulco to buy it, promising to repay her when he returned from Davao. Acapulco paid P500,000.00 to Cañete by issuing three checks and subsequently executed a deed of sale in favor of Trinidad, who did not pay her but intended to offset that amount against an alleged debt of P566,000.00 owed by Acapulco to him. Acapulco's checks bounced, leading to criminal charges against her.

Trinidad contended that he did not borrow the car and that the sale constituted a dacion en pago to settle Acapulco's debt with him. The RTC limited the trial issue to whether there was dacion en pago.

On March 23, 1992, the RTC declared the deed of sale null and void, ordered Trinidad to return the car, and awarded damages to Acapulco. Trinidad filed a Motion for Reconsideration and a Supplemental Motion, raising for the first time the defense of legal compensation. The RTC denied both motions, stating that legal compensation was not pleaded. On appeal, the CA affirmed the RTC's decision, reiterating that compensation could not be claimed if not pleaded and one obligation involved delivery of a car.

****Issues:****

1. Whether the RTC and CA erred in not recognizing legal compensation despite it not being initially pleaded.
2. Whether the award of damages to Acapulco was proper.

****Court's Decision:****

The Supreme Court granted the petition, holding that:

1. ****Recognition of Legal Compensation:**** The Court established that legal compensation operates ipso jure when all conditions under Article 1279 are satisfied, extinguishing concurring debts by law. Thus, even if Trinidad did not plead legal compensation initially, the courts should recognize it to avoid unnecessary litigation. The requisites were met: both parties were principal creditors and debtors of each other with monetary obligations that were liquidated and demandable.

2. **Improper Award of Damages:** The Court found insufficient evidence of emotional or moral distress suffered by Acapulco to warrant moral damages. Likewise, exemplary damages were improper as they are derivative of moral damages and there was no showing of bad faith or wanton conduct by Trinidad. Lastly, an award of attorney's fees without explicit reasons stated in the decision's body was also erroneous.

The Court ordered that the P500,000.00 owed by Trinidad to Acapulco be offset against Acapulco's P566,000.00 debt to Trinidad, requiring Acapulco to pay Trinidad the balance of P66,000.00 plus 12% interest per annum from May 20, 1992, until full payment.

Doctrine:

- Legal compensation operates automatically by law (ipso jure) once its requisites under Article 1279 of the Civil Code are met, extinguishing debts mutually owed to the concurrent amount without requiring prior pleading or party consent.
- Moral and exemplary damages require clear, definite, and convincing proof of suffering and bad faith, respectively, which was not demonstrated in this case.
- Attorney's fees must be specifically justified in the decision's body.

Class Notes:

- **Legal Compensation:** Defined under Articles 1279 and 1290 of the Civil Code, requiring mutual debts, liquidated and demandable amounts, with no third-party claims. Operates automatically once these conditions are satisfied.
- **Moral Damages:** Requires evidence of mental anguish or moral suffering caused by specific wrongful acts.
- **Exemplary Damages:** Awarded only if claimant first establishes a right to moral damages and proves bad faith or wanton conduct.
- **Attorney's Fees:** Require specific justification stated in the decision.

Historical Background:

The case reflects typical issues arising from financial transactions and the principles of debt offsetting, bringing to focus the equitable relief courts can provide even when pleadings are not perfectly aligned with the facts proving legal entitlements.