

ILDEFONSO QUIMZON, PETITIONER, VS. ALAMINOS COOPERATIVE MARKETING ASSOCIATION, INC., RESPONDENT.*G.R. No. 47953. October 29, 1941*

Ponente: OZAETA, J.

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In the year 1929 Ildefonso Quimzon and twenty-five other persons formed a partnership under the name and style of Alaminos Rice Mill to engage in the business of milling rice and purchasing and selling palay, with a capital of P14,400. That partnership was not registered. Ildefonso Quimzon was chosen manager and treasurer, and he appears to have conducted the business without interference or intervention of his copartners. He bought machinery for milling rice from the Philippine Engineering Corporation on an installment plan. He signed the promissory notes and chattel mortgage therefor in his personal capacity because the partnership had no legal personality.

On June 15, 1932, upon recommendation of the Director of Commerce, said partnership was incorporated under the name of Alaminos Cooperative Marketing Association in accordance with Act No. 3425 of the Philippine Legislature. The capital of the corporation was the original capital of the partnership, P14,400, which was distributed as fully paid up shares among the partners in the proportion of their interest in the Alaminos Rice Mill. All the properties of the partnership, consisting of the rice mill and a camarin, were transferred by the partners to the corporation in exchange for their proportionate shares of stock therein. After the incorporation Quimzon continued as manager and treasurer of the business until he was relieved on December 17, 1935.

On February 5, 1936, the Alaminos Cooperative Marketing Association, Inc., brought this action in the Court of First Instance of Pangasinan against Quimzon to require him to render an accounting of the business from the year 1929 until December 17, 1935. Quimzon demurred to the complaint, contending that the plaintiff corporation had no right to demand from him an accounting of the business of the partnership Alaminos Rice Mill. Quimzon's demurrer having been sustained by the court, the plaintiff corporation amended its complaint by limiting its cause of action to an accounting of the business from its incorporation on June 15, 1932, until December 17, 1935. In his answer Quimzon set up various special defenses denying his liability to render an accounting, and setting up eight counterclaims against the plaintiff.

On January 4, 1937, the court rendered its decision ordering the defendant to render a detailed account of his receipts and expenses as treasurer of the plaintiff corporation from June 15, 1932, to December 17, 1935, and dismissing his eight counterclaims. The court further ordered that upon the presentation of the account by the defendant, the same be set for hearing for its approval. In the accounting which the defendant subsequently rendered to the court covering the period from June 15, 1932, to December 17, 1935, he claimed to have made disbursements in the sum of P20,539.94 as against cash receipts aggregating only P4,003.08, thereby showing a balance in his favor and against the plaintiff corporation in the sum of P6,536.86. He also claimed other amounts alleged to have been paid by him to other persons for the account of the corporation, which amounts, added to the said sum of P6,536.86, aggregated P1,407.22. After the hearing on the said accounting or report of the defendant,

the court entered an order on October 25, 1939, in which it decided that from the expenses of P20,539.94 the sum of P1,887.73 should be deducted, which latter sum the defendant claimed to have paid to the Philippine Engineering Corporation, thereby leaving only the sum of P8,652.21 as expenses; and to the receipts of P14,003.08 the court ordered added the sum of P1,018.90, which the court found the defendant should pay to the corporation for the milling of his own palay, thereby making the receipts total P15,021.98. To the expenses of P8,652.21 the court added the sum of P3,648.30 for salary of the defendant as manager and for other expenses, making a total of P12,300.51. The result was that the defendant was found indebted to the plaintiff in the sum of P2,721.47, for which judgment was rendered against said defendant and in favor of the plaintiff. From that judgment the defendant appealed to the Court of Appeals, which affirmed the judgment appealed from on November 28, 1940. This case is before us on petition for certiorari to review the decision of the Court of Appeals.

In this court the petitioner-appellant (defendant below) makes the following assignment of errors:

"1. The Honorable Court of Appeals erred in not considering as corporation expenses, and hence chargeable against the corporation, the sum of P11,887.73 which was paid to the Philippine Engineering Corporation as balance of the purchase price of the machineries taken over by the plaintiff corporation from its partnership predecessor.

"2. The Honorable Court of Appeals erred in not including in its final computation as expenses chargeable against the corporation the sums of P24 paid to Pablo Bito, P200 paid to Padre Chanco, P183.60 paid to G. Braganza, and P224.40 paid to L. Montemayor, totalling P632 despite the fact that in the decision itself, the said items have not been denied as corporation expenses.

"3. The Honorable Court of Appeals erred in not rendering judgment condemning the plaintiff corporation to pay defendant the sum of P9,788.26."

After considering the respective contentions of the parties, we find it necessary to remand the case to the court of origin for a complete accounting by the defendant of his management of the business from its organization in 1929 to December 17, 1935. Our reasons follow: The principal item in controversy between the parties is the sum of P11,887.73 which the defendant paid to the Philippine Engineering Corporation as balance of the purchase price of the rice mill. Upon that controversy the Court of Appeals said:

"* * * Pero la entidad demandante impugna esta cantidad por dos razones: (a) porque las cuentas pagadas por el demandado pertenecian a la sociedad no registrada 'Alaminos Rice Mill,'* de las cuales no tenia nada que ver la 'Alaminos Cooperative Marketing Ass., Inc.'; (6) porque parte de dichos pagos, particularmente los justificados por los Exhibitos P-1 al P-6 han constituido la base de la Sexta Reconvenicdn contra la demanda original, y sobre cuyos pagos el Juzgado a quo ha hecho la siguiente declaracion: 'que las obligaciones a la "Philippine Engineering Co." que aparecen en los pagares Exhibitos P, P-1 al P-6 son obligaciones de la "Alaminos Rice Mill" y no de la corporation demandante/ No hay nada en la escritura de traspaso de las propiedades de 'Alaminos Rice Mill' a la entidad demandante (Exhibito 103), que indique que esta se encargaria o asumiria el pago de las obligaciones de la vendedora 'Alaminos Rice Mill.' * * *'" (Pages 37-38. brief for petitioner-appellant.)

That finding of the Court of Appeals is the subject of petitioner's first assignment of error in this court. Both the trial court and the Court of Appeals took the view that the cost of the rice mill was an obligation of the original partnership Alaminos Rice Mill, "with which the Alaminos Cooperative Marketing Association, Inc., has nothing to do." That view, in our opinion, is erroneous. It is true that there is no legal identity between the plaintiff corporation and the pre-existing partnership, and as a general rule the corporation is not liable on or for the contracts or debts of the preexisting partnership unless it has expressly or impliedly and on sufficient

consideration adopted or assumed the same. But it has been held in many cases that, where a corporation has been formed by the members of a partnership subsequent to the incurring of debts, the former partners being the only members of the corporation, and the assets of the partnership have been transferred to the corporation for the continuance of the business, in exchange for stock and without other consideration, the corporation thereby impliedly assumes the partnership debts and is prima facie liable therefor, since the legal entity of the corporation and the want of identity as between the corporation and the partners may be disregarded and 'the members of the partnership may be said to have simply put on a new coat'" (14 C. J. 305-306; see also 7 R. C. L. 85, citing *Andres vs. Morgan*, 62 Ohio St. 236, 56 N. E. 875, 78 A. L. R. 712.) We adopt this doctrine as a sound rule of law applicable to the instant case.

The contention of the appellee and of the trial court that appellant's claim for the item in question is *res adjudicata* because in its decision herein dated January 4, 1937, the court had overruled defendant's sixth counterclaim for P5,000, which formed part of said item of P 1,887.73, is untenable. That decision was interlocutory and not appealable until the accounting therein ordered was rendered and final judgment entered, which was not done until the trial court entered the order appealed from, dated October 25, 1939. Consequently, the said decision of the trial court of January 4, 1937, was and is reviewable by the appellate court. And as above indicated, we find that the Court of Appeals erred in affirming the holding of the trial court to the effect that the indebtedness to the Philippine Engineering Corporation for the cost of the rice mill was an obligation of the Alaminos Rice Mill and not of the Alaminos Cooperative Marketing Association, Inc.

However, the error in which the trial court and the Court of Appeals incurred was but the consequence of appellant's own theory in his demurrer, that the plaintiff corporation had nothing to do with, and could not ask for an accounting of the business transacted by, the Alaminos Rice Mill; and that theory is inconsistent with appellant's position. Appellant cannot make the corporation shoulder the liabilities of the partnership and withhold from the former the assets or income he may have received for the account of the latter. The appellee contends that during the existence of the partnership, appellant as manager and treasurer thereof received income more than sufficient to pay for the purchase price of the machinery in question. If that is true (and it can only be determined after a proper accounting), it would be manifestly unfair for appellant not to account for that income and charge to appellee part of the cost of the machinery which it is claimed he has paid or should have paid out of that income.

The amounts claimed by appellant under his second assignment of error was disallowed by the trial court, among other reasons, "because they were obligations corresponding to the year 1930 which ought not to be charged to the Alaminos Cooperative Marketing Association but to the Alaminos Rice Mill." In view of the conclusion we arrived at in discussing the first assignment of error, we do not have to decide now whether or not appellant is entitled to said amounts. That matter can be better determined after a new and full accounting has been rendered by him. In this connection, we might add that during the oral argument before this Court counsel for the appellee expressed his conformity that the case be remanded to the trial court for an accounting of the business from the year 1929.

In resume, we declare that the defendant Ildfonso Quimzon is entitled to be reimbursed all the sums he has paid to the Philippine Engineering Corporation for the purchase price of the rice mill which was transferred by the partnership to the plaintiff corporation, but he is liable to account to the plaintiff for all the receipts and expenses of the partnership. Without such accounting, full justice cannot be done to both parties.

The judgment of the Court of Appeals is hereby set aside; and it is ordered that this case be remanded to the court of origin with instructions to require the defendant Ildfonso Quimzon to render an accounting of the business of Alaminos Rice Mill and its successor Alaminos Cooperative Marketing Association, Inc., from the year 1929 to December 17, 1935, as prayed for in plaintiff's original complaint, in which accounting the said defendant shall be

credited with all the amounts he paid to the Philippine Engineering Corporation for the rice mill bought by him and subsequently transferred to the plaintiff, and to render judgment upon such accounting not inconsistent herewith. The oral and documentary evidence adduced by the parties during the previous hearings may be considered without the necessity of retaking the same. No pronouncement as to costs. So ordered.

Abad Santos, Diaz, Moran, and Horrilleno, JJ., concur.

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