
Bar Examination Questionnaire for Commercial Law
Set A

1. P rode a Sentinel Liner bus going to Baguio from Manila. At a stop-over in Tarlac, the bus driver, the conductor, and the passengers disembarked for lunch. P decided, however, to remain in the bus, the door of which was not locked. At this point, V, a vendor, sneaked into the bus and offered P some refreshments. When P rudely declined, V attacked him, resulting in P suffering from bruises and contusions. Does he have cause to sue Sentinel Liner?

A. Yes, since the carrier's crew did nothing to protect a passenger who remained in the bus during the stop-over.

B. No, since the carrier's crew could not have foreseen the attack.

C. Yes, since the bus is liable for anything that goes wrong in the course of a trip.

D. No, since the attack on P took place when the bus was at a stop-over.

2. A cargo ship of X Shipping, Co. ran aground off the coast of Cebu during a storm and lost all its cargo amounting to Php50 Million. The ship itself suffered damages estimated at Php80 Million. The cargo owners filed a suit against X Shipping but it invoked the doctrine of limited liability since its vessel suffered an Php80 Million damage, more than the collective value of all lost cargo. Is X Shipping correct?

A. Yes, since under that doctrine, the value of the lost cargo and the damage to the ship can be set-off.

B. No, since each cargo owner has a separate and individual claim for damages.

C. Yes, since the extent of the ship's damage was greater than that of the value of the lost cargo.

D. No, since X Shipping neither incurred a total loss nor abandoned its ship.

3. A writes a promissory note in favor of his creditor, B. It says: "Subject to my option, I promise to pay B Php1 Million or his order or give Php1 Million worth of cement or to authorize him to sell my house worth Php1 Million. Signed, A." Is the note negotiable?

A. No, because the exercise of the option to pay lies with A, the maker and debtor.

B. No, because it authorizes the sale of collateral securities in case the note is not paid at maturity.

C. Yes, because the note is really payable to B or his order, the other provisions being merely optional.

D. Yes, because an election to require something to be done in lieu of payment of money does not affect negotiability.

4. ABC Corp. increased its capital stocks from Php10 Million to Php15 Million and, in the process, issued 1,000 new shares divided into Common Shares "B" and Common Shares "C." T, a stockholder owning 500 shares, insists on buying the newly issued shares through a right of pre-emption. The company claims, however, that its By-laws deny T any right of pre-emption. Is the corporation correct?

A. No, since the By-Laws cannot deny a shareholder his right of pre-emption.

B. Yes, but the denial of his pre-emptive right extends only to 500 shares.

C. Yes, since the denial of the right under the By-laws is binding on T.

D. No, since pre-emptive rights are governed by the articles of incorporation.

Bar Examination Questionnaire for Commercial Law
Set A

5. M makes a promissory note that states: "I, M, promise to pay Php5,000.00 to B or bearer. Signed, M." M negotiated the note by delivery to B, B to N, and N to O. B had known that M was bankrupt when M issued the note. Who would be liable to O?

- A. M and N since they may be assumed to know of M's bankruptcy
- B. N, being O's immediate negotiator of a bearer note
- C. B, M, and N, being indorsers by delivery of a bearer note
- D. B, having known of M's bankruptcy

6. S delivered 10 boxes of cellphones to Trek Bus Liner, for transport from Manila to Ilocos Sur on the following day, for which S paid the freightage. Meanwhile, the boxes were stored in the bus liner's bodega. That night, however, a robber broke into the bodega and stole S's boxes. S sues Trek Bus Liner for contractual breach but the latter argues that S has no cause of action based on such breach since the loss occurred while the goods awaited transport. Who is correct?

- A. The bus liner since the goods were not lost while being transported.
- B. S since the goods were unconditionally placed with T for transportation.
- C. S since the freightage for the goods had been paid.
- D. The bus liner since the loss was due to a fortuitous event.

7. X Corp. operates a call center that received orders for pizzas on behalf of Y Corp. which operates a chain of pizza restaurants. The two companies have the same set of corporate officers. After 2 years, X Corp. dismissed its call agents for no apparent reason. The agents filed a collective suit for illegal dismissal against both X Corp. and Y Corp. based on the doctrine of piercing the veil of corporate fiction. The latter set up the defense that the agents are in the employ of X Corp. which is a separate juridical entity. Is this defense appropriate?

- A. No, since the doctrine would apply, the two companies having the same set of corporate officers.
- B. No, the real employer is Y Corp., the pizza company, with X Corp. serving as an arm for receiving its outside orders for pizzas.
- C. Yes, it is not shown that one company completely dominates the finances, policies, and business practices of the other.
- D. Yes, since the two companies perform two distinct businesses.

8. A negotiable instrument can be indorsed by way of a restrictive indorsement, which prohibits further negotiation and constitutes the indorsee as agent of the indorser. As agent, the indorsee has the right, among others, to

- A. demand payment of the instrument only.
- B. notify the drawer of the payment of the instrument.
- C. receive payment of the instrument.
- D. instruct that payment be made to the drawee.

9. Under the Negotiable Instruments Law, a signature by procuracy operates as a notice that the agent has but a limited authority to sign. Thus, a person who takes a bill that is drawn, accepted, or indorsed by procuracy is duty-bound to

Bar Examination Questionnaire for Commercial Law
Set A

inquire into the extent of the agent's authority by:

- A. examining the agent's special power of attorney.
- B. examining the bill to determine the extent of such authority.
- C. asking the agent about the extent of such authority.
- D. asking the principal about the extent of such authority.

10. Under the Negotiable Instruments Law, if the holder has a lien on the instrument which arises either from a contract or by implication of law, he would be a holder for value to the extent of

- A. his successor's interest.
- B. his predecessor's interest.
- C. the lien in his favor.
- D. the amount indicated on the instrument's face.

11. The liability of a common carrier for the goods it transports begins from the time of

- A. conditional receipt.
- B. constructive receipt.
- C. actual receipt.
- D. either actual or constructive receipt.

12. On X's failure to pay his loan to ABC Bank, the latter foreclosed the Real Estate Mortgage he executed in its favor. The auction sale was set for Dec. 1, 2010 with the notices of sale published as the law required. The sale was, however, cancelled when Dec. 1, 2010 was declared a holiday and re-scheduled to Jan. 10, 2011 without republication of notice. The auction sale then proceeded on the new date. Under the circumstances, the auction sale is

- A. rescissible.
- B. unenforceable.
- C. void.
- D. voidable.

13. X executed a promissory note with a face value of Php50,000.00, payable to the order of Y. Y indorsed the note to Z, to whom Y owed Php30,000.00. If X has no defense at all against Y, for how much may Z collect from X?

- A. Php20,000.00, as he is a holder for value to the extent of the difference between Y's debt and the value of the note.
- B. Php30,000.00, as he is a holder for value to the extent of his lien.
- C. Php50,000.00, but with the obligation to hold Php20,000.00 for Y's benefit.
- D. None, as Z's remedy is to run after his debtor, Y.

14. Under the Anti-Money Laundering Law, a covered institution is required to maintain a system of verifying the true identity of their clients as well as persons purporting to act on behalf of

- A. those doing business with such clients.
- B. unknown principals.

Bar Examination Questionnaire for Commercial Law
Set A

- C. the covered institution.
- D. such clients.

15. It is settled that neither par value nor book value is an accurate indicator of the fair value of a share of stock of a corporation. As to unpaid subscriptions to its shares of stock, as they are regarded as corporate assets, they should be included in the

- A. capital value.
- B. book value.
- C. par value.
- D. market value.

16. P sold to M 10 grams of shabu worth Php5,000.00. As he had no money at the time of the sale, M wrote a promissory note promising to pay P or his order Php5,000. P then indorsed the note to X (who did not know about the shabu), and X to Y. Unable to collect from P, Y then sued X on the note. X set up the defense of illegality of consideration. Is he correct?

- A. No, since X, being a subsequent indorser, warrants that the note is valid and subsisting.
- B. No, since X, a general indorser, warrants that the note is valid and subsisting.
- C. Yes, since a void contract does not give rise to any right.
- D. Yes, since the note was born of an illegal consideration which is a real defense.

17. In a contract of carriage, the common carrier is liable for the injury or death of a passenger resulting from its employee's fault although the latter acted beyond the scope of his authority. This is based on the

- A. rule that the carrier has an implied duty to transport the passenger safely.
- B. rule that the carrier has an express duty to transport the passenger safely
- C. Doctrine of Respondeat Superior.
- D. rule in culpa aquiliana.

18. A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves. An example of such a defense is -

- A. fraud in inducement.
- B. duress amounting to forgery.
- C. fraud in esse contractus.
- D. alteration.

19. In elections for the Board of Trustees of non-stock corporations, members may cast as many votes as there are trustees to be elected but may not cast more than one vote for one candidate. This is true -

- A. unless set aside by the members in plenary session.
- B. in every case even if the Board of Trustees resolves otherwise.
- C. unless otherwise provided in the Articles of Incorporation or in the By-laws.
- D. in every case even if the majority of the members decide otherwise during the

Bar Examination Questionnaire for Commercial Law
Set A

elections.

20. The rule is that the valuation of the shares of a stockholder who exercises his appraisal rights is determined as of the day prior to the date on which the vote was taken. This is true -

- A. regardless of any depreciation or appreciation in the share's fair value.
- B. regardless of any appreciation in the share's fair value.
- C. regardless of any depreciation in the share's fair value.
- D. only if there is no appreciation or depreciation in the share's fair value.

21. T Shipping, Co. insured all of its vessels with R Insurance, Co. The insurance policies stated that the insurer shall answer for all damages due to perils of the sea. One of the insured's ship, the MV Dona Priscilla, ran aground in the Panama Canal when its engine pipes leaked and the oil seeped into the cargo compartment. The leakage was caused by the extensive mileage that the ship had accumulated. May the insurer be made to answer for the damage to the cargo and the ship?

- A. Yes, because the insurance policy covered any or all damage arising from perils of the sea.
- B. Yes, since there appears to have been no fault on the part of the shipowner and shipcaptain.
- C. No, since the proximate cause of the damage was the breach of warranty of seaworthiness of the ship.
- D. No, since the proximate cause of the damage was due to ordinary usage of the ship, and thus not due to a peril of the sea.

22. X has been a long-time household helper of Z. X's husband, Y, has also been Z's long-time driver. May Z insure the lives of both X and Y with Z as beneficiary?

- A. Yes, since X and Y render services to Z.
- B. No, since X and Y have no pecuniary interest on the life of Z arising from their employment with him.
- C. No, since Z has no pecuniary interest in the lives of X and Y arising from their employment with him.
- D. Yes, since X and Y are Z's employees.

23. X, Co., a partnership, is composed of A (capitalist partner), B (capitalist partner) and C (industrial partner). If you were partner A, who between B and C would you have an insurable interest on, such that you may then insure him?

- A. No one, as there is merely a partnership contract among A, B and C.
- B. Both B and C, as they are your partners.
- C. Only C, as he is an industrial partner.
- D. Only B, as he is a capitalist partner.

24. X is the holder of an instrument payable to him (X) or his order, with Y as maker. X then indorsed it as follows: "Subject to no recourse, pay to Z. Signed, X." When Z went to collect from Y, it turned out that Y's signature was forged. Z now sues X for collection. Will it prosper?

Bar Examination Questionnaire for Commercial Law
Set A

- A. Yes, because X, as a conditional indorser, warrants that the note is genuine.
- B. Yes, because X, as a qualified indorser, warrants that the note is genuine.
- C. No, because X made a qualified indorsement.
- D. No, because a qualified indorsement does not include the warranty of genuineness.

25. A bill of exchange has T for its drawee, U as drawer, and F as holder. When F went to T for presentment, F learned that T is only 15 years old. F wants to recover from U but the latter insists that a notice of dishonor must first be made, the instrument being a bill of exchange. Is he correct?

- A. Yes, since a notice of dishonor is essential to charging the drawer.
- B. No, since T can waive the requirement of notice of dishonor.
- C. No, since F can treat U as maker due to the minority of T, the drawee.
- D. Yes, since in a bill of exchange, notice of dishonor is at all times required.

26. An insured, who gains knowledge of a material fact already after the effectivity of the insurance policy, is not obliged to divulge it. The reason for this is that the test of concealment of material fact is determined

- A. at the time of the issuance of the policy.
- B. at any time before the payment of premium.
- C. at the time of the payment of the premium.
- D. at any time before the policy becomes effective.

27. T, the captain of MV Don Alan, while asleep in his cabin, dreamt of an Intensity 8 earthquake along the path of his ship. On waking up, he immediately ordered the ship to return to port. True enough, the earthquake and tsunami struck three days later and his ship was saved. Was the deviation proper?

- A. Yes, because the deviation was made in good faith and on a reasonable ground for believing that it was necessary to avoid a peril.
- B. No, because no reasonable ground for avoiding a peril existed at the time of the deviation.
- C. No, because T relied merely on his supposed gift of prophecy.
- D. Yes, because the deviation took place based on a reasonable belief of the captain.

28. X, drawee of a bill of exchange, wrote the words: "Accepted, with promise to make payment within two days. Signed, X." The drawer questioned the acceptance as invalid. Is the acceptance valid?

- A. Yes, because the acceptance is in reality a clear assent to the order of the drawer to pay.
- B. Yes, because the form of the acceptance is really immaterial.
- C. No, because the acceptance must be a clear assent to the order of the drawer to pay.
- D. No, because the document must not express that the drawee will perform his promise within two days.

29. X came up with a new way of presenting a telephone directory in a mobile

Bar Examination Questionnaire for Commercial Law
Set A

phone, which he dubbed as the "iTel" and which uses lesser time for locating names and telephone numbers. May X have his "iTel" copyrighted in his name?

- A. No, because it is a mere system or method.
- B. Yes, because it is an original creation.
- C. Yes, because it entailed the application of X's intellect.
- D. No, because it did not entail any application of X's intellect.

30. D, debtor of C, wrote a promissory note payable to the order of C. C's brother, M, misrepresenting himself as C's agent, obtained the note from D, then negotiated it to N after forging C's signature. N indorsed it to E, who indorsed it to F, a holder in due course. May F recover from E?

- A. No, since the forgery of C's signature results in the discharge of E.
- B. Yes, since only the forged signature is inoperative and E is bound as indorser.
- C. No, since the signature of C, the payee, was forged.
- D. Yes, since the signature of C is immaterial, he being the payee.

31. A material alteration of an instrument without the assent of all parties liable thereon results in its avoidance, EXCEPT against a

- A. prior indorsee.
- B. subsequent acceptor.
- C. subsequent indorser.
- D. prior acceptor.

32. X constituted a chattel mortgage on a car (valued at Php1 Million pesos) to secure a P500,000.00 loan. For the mortgage to be valid, X should have

- A. the right to mortgage the car to the extent of half its value.
- B. ownership of the car.
- C. unqualified free disposal of his car.
- D. registered the car in his name.

33. B borrowed Php1 million from L and offered to him his BMW car worth Php1 Million as collateral. B then executed a promissory note that reads: "I, B, promise to pay L or bearer the amount of Php1 Million and to keep my BMW car (loan collateral) free from any other encumbrance. Signed, B." Is this note negotiable?

- A. Yes, since it is payable to bearer.
- B. Yes, since it contains an unconditional promise to pay a sum certain in money.
- C. No, since the promise to just pay a sum of money is unclear.
- D. No, since it contains a promise to do an act in addition to the payment of money.

34. A bank can be placed under receivership when, if allowed to continue in business, its depositors or creditors would incur

- A. probable losses
- B. inevitable losses
- C. possible losses
- D. a slight chance of losses

Bar Examination Questionnaire for Commercial Law
Set A

35. EFG Foundation, Inc., a non-profit organization, scheduled an election for its six-member Board of Trustees. X, Y and Z, who are minority members of the foundation, wish to exercise cumulative voting in order to protect their interest, although the Foundation's Articles and By-laws are silent on the matter. As to each of the three, what is the maximum number of votes that he/she can cast?

- A. 6
- B. 9
- C. 12
- D. 3

36. If the drawer and the drawee are the same person, the holder may present the instrument for payment without need of a previous presentment for acceptance. In such a case, the holder treats it as a

- A. non-negotiable instrument.
- B. promissory note.
- C. letter of credit.
- D. check.

37. D draws a bill of exchange that states: "One month from date, pay to B or his order Php100,000.00. Signed, D." The drawee named in the bill is E. B negotiated the bill to M, M to N, N to O, and O to P. Due to non-acceptance and after proceedings for dishonor were made, P asked O to pay, which O did. From whom may O recover?

- A. B, being the payee
- B. N, as indorser to O
- C. E, being the drawee
- D. D, being the drawer

38. T, an associate attorney in XYZ Law Office, wrote a newspaper publisher a letter disputing a columnist's claim about an incident in the attorney's family. T used the law firm's letterhead and its computer in preparing the letter. T also requested the firm's messenger to deliver the letter to the publisher. Who owns the copyright to the letter?

- A. T, since he is the original creator of the contents of the letter.
- B. Both T and the publisher, one wrote the letter to the other who has possession of it.
- C. The law office since T was an employee and he wrote it on the firm's letterhead.
- D. The publisher to whom the letter was sent.

39. E received goods from T for display and sale in E's store. E was to turn over to T the proceeds of any sale and return the ones unsold. To document their agreement, E executed a trust receipt in T's favor covering the goods. When E failed to turn over the proceeds from his sale of the goods or return the ones unsold despite demand, he was charged in court for estafa. E moved to dismiss on the ground that his liability is only civil. Is he correct?

Bar Examination Questionnaire for Commercial Law
Set A

A. No, since he committed fraud when he promised to pay for the goods and did not.

B. No, since his breach of the trust receipt agreement subjects him to both civil and criminal liability for estafa.

C. Yes, since E cannot be charged with estafa over goods covered a trust receipt.

D. Yes, since it was merely a consignment sale and the buyer could not pay.

40. The authorized alteration of a warehouse receipt which does not change its tenor renders the warehouseman liable according to the terms of the receipt

A. in its original tenor if the alteration is material.

B. in its original tenor.

C. as altered if there is fraud.

D. as altered.

41. Any agreement binding upon the holder to extend the time of payment or to postpone the holder's right to enforce the instrument results in the discharge of the party secondarily liable unless made with the latter's consent. This agreement refers to one which the holder made with the

A. principal debtor.

B. principal creditor.

C. secondary creditor.

D. secondary debtor.

42. Upon execution of a trust receipt over goods, the party who is obliged to release such goods and who retains security interest on those goods, is called the

A. holder.

B. shipper.

C. entrustee.

D. entrustor.

43. X, warehouseman, sent a text message to Y, to whom X had issued a warehouse receipt for Y's 500 sacks of corn, notifying him of the due date and time to settle the storage fees. The message stated also that if Y does not settle the warehouse charges within 10 days, he will advertise the goods for sale at a public auction. When Y ignored the demand, X sold 100 sacks of corn at a public auction. For X's failure to comply with the statutory requirement of written notice to satisfy his lien, the sale of the 100 sacks of corn is

A. voidable.

B. rescissible.

C. unenforceable.

D. void.

44. On June 1, 2011, X mailed to Y Insurance, Co. his application for life insurance, with payment for 5 years of premium enclosed in it. On July 21, 2011, the insurance company accepted the application and mailed, on the same day, its acceptance plus the cover note. It reached X's residence on August 11, 2011.

Bar Examination Questionnaire for Commercial Law
Set A

But, as it happened, on August 4, 2011, X figured in a car accident. He died a day later. May X's heirs recover on the insurance policy?

- A. Yes, since under the Cognition Theory, the insurance contract was perfected upon acceptance by the insurer of X's application.
- B. No, since there is no privity of contract between the insurer and X's heirs.
- C. No, since X had no knowledge of the insurer's acceptance of his application before he died.
- D. Yes, since under the Manifestation Theory, the insurance contract was perfected upon acceptance of the insurer of X's application.

45. A bill of exchange has D as drawer, E as drawee and F as payee. The bill was then indorsed to G, G to H, and H to I. I, the current holder presented the bill to E for acceptance. E accepted but, as it later turned out, D is a fictitious person. Is E freed from liability?

- A. No, since by accepting, E admits the existence of the drawer.
- B. No, since by accepting, E warrants that he is solvent.
- C. Yes, if E was not aware of that fact at the time of acceptance.
- D. Yes, since a bill of exchange with a fictitious drawer is void and inexistent.

46. Due to his debt to C, D wrote a promissory note which is payable to the order of C. C's brother, M, misrepresenting himself as agent of C, obtained the note from D. M then negotiated the note to N after forging the signature of C. May N enforce the note against D?

- A. Yes, since D is the principal debtor.
- B. No, since the signature of C was forged.
- C. No, since it is C who can enforce it, the note being payable to the order of C.
- D. Yes, since D, as maker, is primarily liable on the note.

47. T Corp. has a corporate term of 20 years under its Articles of Incorporation or from June 1, 1980 to June 1, 2000. On June 1, 1991 it amended its Articles of Incorporation to extend its life by 15 years from June 1, 1980 to June 1, 2015. The SEC approved this amendment. On June 1, 2011, however, T Corp decided to shorten its term by 1 year or until June 1, 2014. Both the 1991 and 2011 amendments were approved by majority vote of its Board of Directors and ratified in a special meeting by its stockholders representing at least 2/3 of its outstanding capital stock. The SEC, however, disapproved the 2011 amendment on the ground that it cannot be made earlier than 5 years prior to the expiration date of the corporate term, which is June 1, 2014. Is this SEC disapproval correct?

- A. No, since the 5-year rule on amendment of corporate term applies only to extension, not to shortening, of term.
- B. Yes, any amendment affecting corporate term cannot be made earlier than 5 years prior to the corporation's expiration date.
- C. No, since a corporation can in fact have a corporate life of 50 years.
- D. Yes, the amendment to shorten corporate term cannot be made earlier than 5 years prior to the corporation's expiration date.

48. B, while drunk, accepted a passenger in his taxicab. B then drove the taxi

Bar Examination Questionnaire for Commercial Law
Set A

recklessly, and inevitably, it crashed into an electric post, resulting in serious physical injuries to the passengers. The latter then filed a suit for tort against B's operator, A, but A raised the defense of having exercised extraordinary diligence in the safety of the passenger. Is his defense tenable?

- A. Yes, as a common carrier can rebut the presumption of negligence by raising such a defense.
- B. No, as in tort actions, the proper defense is due diligence in the selection and supervision of the employee by the employer.
- C. No, as B, the common carrier's employee, was obviously negligent due to his intoxication.
- D. Yes, as a common carrier can invoke extraordinary diligence in the safety of passengers in tort cases.

49. X is a director in T Corp. who was elected to a 1-year term on Feb. 1, 2010. On April 11, 2010, X resigned and was replaced by R, who assumed as director on May 17, 2010. On Nov. 21, 2010, R died. S was then elected in his place. Until which time should S serve as director?

- A. April 11, 2011.
- B. Feb. 1, 2011.
- C. May 17, 2011.
- D. Nov. 21, 2011.

50. M, the maker, issued a promissory note to P, the payee which states: "I, M, promise to pay P or order the amount of Php1 Million. Signed, M." P negotiated the note by indorsement to N, then N to O also by indorsement, and O to Q, again by indorsement. But before O indorsed the note to Q, O's wife wrote the figure "2" on the note after "Php1" without O's knowledge, making it appear that the note is for Php12 Million. For how much is O liable to Q?

- A. Php1 Million since it is the original tenor of the note.
- B. Php1 Million since he warrants that the note is genuine and in all respects what it purports to be.
- C. Php12 Million since he warrants his solvency and that he has a good title to the note.
- D. Php12 Million since he warrants that the note is genuine and in all respects what it purports to be.

51. X Corp., whose business purpose is to manufacture and sell vehicles, invested its funds in Y Corp., an investment firm, through a resolution of its Board of Directors. The investment grew tremendously on account of Y Corp.'s excellent business judgment. But a minority stockholder in X Corp. assails the investment as ultra vires. Is he right and, if so, what is the status of the investment?

- A. Yes, it is an ultra vires act of the corporation itself but voidable only, subject to stockholders' ratification.
- B. Yes, it is an ultra vires act of its Board of Directors and thus void.
- C. Yes, it is an ultra vires act of its Board of Directors but voidable only, subject to stockholders' ratification.
- D. Yes, it is an ultra vires act of the corporation itself and, consequently, void.

Bar Examination Questionnaire for Commercial Law
Set A

52. Notice of dishonor is not required to be made in all cases. One instance where such notice is not necessary is when the indorser is the one to whom the instrument is suppose to be presented for payment. The rationale here is that the indorser

- A. already knows of the dishonor and it makes no sense to notify him of it.
- B. is bound to make the acceptance in all cases.
- C. has no reason to expect the dishonor of the instrument.
- D. must be made to account for all his actions.

53. "Eagleson Refillers, Co.," a firm that sells water to the public, opposes the trade name application of "Eagleson Laundry, Co.," on the ground that such trade name tends to deceive trade circles or confuse the public with respect to the water firm's registered trade name. Will the opposition prosper?

- A. Yes, since such use is likely to deceive or confuse the public.
- B. Yes, since both companies use water in conducting their business.
- C. No, since the companies are not engaged in the same line of business.
- D. No, since the root word "Eagle" is a generic name not subject to registration.

54. For a constructive total loss to exist in marine insurance, it is required that the person insured relinquish his interest in the thing insured. This relinquishment must be

- A. actual.
- B. constructive first and if it fails, then actual.
- C. either actual or constructive.
- D. constructive.

55. The Corporation Code sanctions a contract between two or more corporations which have interlocking directors, provided there is no fraud that attends it and it is fair and reasonable under the circumstances. The interest of an interlocking director in one corporation may be either substantial or nominal. It is nominal if his interest:

- A. does not exceed 25% of the outstanding capital stock.
- B. exceeds 25% of the outstanding capital stock.
- C. exceeds 20% of the outstanding capital stock.
- D. does not exceed 20% of the outstanding capital stock.

56. X, an amateur astronomer, stumbled upon what appeared to be a massive volcanic eruption in Jupiter while peering at the planet through his telescope. The following week, X, without notes, presented a lecture on his findings before the Association of Astronomers of the Philippines. To his dismay, he later read an article in a science journal written by Y, a professional astronomer, repeating exactly what X discovered without any attribution to him. Has Y infringed on X's copyright, if any?

- A. No, since X did not reduce his lecture in writing or other material form.
- B. Yes, since the lecture is considered X's original work.
- C. No, since no protection extends to any discovery, even if expressed.

Bar Examination Questionnaire for Commercial Law
Set A

explained, illustrated, or embodied in a work.

D. Yes, since Y's article failed to make any attribution to X.

57. In case of disagreement between the corporation and a withdrawing stockholder who exercises his appraisal right regarding the fair value of his shares, a three-member group shall by majority vote resolve the issue with finality. May the wife of the withdrawing stockholder be named to the three-member group?

A. No, the wife of the withdrawing shareholder is not a disinterested person.

B. Yes, since she could best protect her husband's shareholdings.

C. Yes, since the rules do not discriminate against wives.

D. No, since the stockholder himself should sit in the three-member group.

58. Apart from economic rights, the author of a copyright also has moral rights which he may transfer by way of assignment. The term of these moral rights shall last

A. during the author's lifetime and for 50 years after his death.

B. forever.

C. 50 years from the time the author created his work.

D. during the author's lifetime.

59. Which of the following indorsers expressly warrants in negotiating an instrument that 1) it is genuine and true; 2) he has a good title to it; 3) all prior parties have capacity to negotiate; and 4) it is valid and subsisting at the time of his indorsement?

A. The irregular indorser.

B. The regular indorser.

C. The general indorser.

D. The qualified indorser.

60. Where the insurer was made to pay the insured for a loss covered by the insurance contract, such insurer can run after the third person who caused the loss through subrogation. What is the basis for conferring the right of subrogation to the insurer?

A. Their express stipulation in the contract of insurance.

B. The equitable assignment that results from the insurer's payment of the insured.

C. The insured's formal assignment of his right to indemnification to the insurer.

D. The insured's endorsement of its claim to the insurer.

61. X invented a device which, through the use of noise, can recharge a cellphone battery. He applied for and was granted a patent on his device, effective within the Philippines. As it turns out, a year before the grant of X's patent, Y, also an inventor, invented a similar device which he used in his cellphone business in Manila. But X files an injunctive suit against Y to stop him from using the device on the ground of patent infringement. Will the suit prosper?

Bar Examination Questionnaire for Commercial Law
Set A

- A. No, since the correct remedy for X is a civil action for damages.
- B. No, since Y is a prior user in good faith.
- C. Yes, since X is the first to register his device for patent registration.
- D. Yes, since Y unwittingly used X's patented invention.

62. P, a sales girl in a flower shop at the Ayala Station of the Metro Rail Transit (MRT) bought two tokens or tickets, one for her ride to work and another for her ride home. She got to her flower shop where she usually worked from 8 a.m. to 5 p.m. At about 3 p.m., while P was attending to her duties at the flower shop, two crews of the MRT got into a fight near the flower shop, causing injuries to P in the process. Can P sue the MRT for contractual breach as she was within the MRT premises where she would shortly take her ride home?

- A. No, since the incident took place, not in an MRT train coach, but at the MRT station.
- B. No, since P had no intention to board an MRT train coach when the incident occurred.
- C. Yes, since she already had a ticket for her ride home and was in the MRTs premises at the time of the incident.
- D. Yes, since she bought a round trip ticket and MRT had a duty while she was at its station to keep her safe for her return trip.

63. Forgery of bills of exchange may be subdivided into, a) forgery of an indorsement on the bill and b) forgery of the drawer's signature, which may either be with acceptance by the drawee, or

- A. with acceptance but the bill is paid by the drawee.
- B. without acceptance but the bill is paid by the drawer.
- C. without acceptance but the bill is paid by the drawee.
- D. with acceptance but the bill is paid by the drawer.

64. If an insurance policy prohibits additional insurance on the property insured without the insurer's consent, such provision being valid and reasonable, a violation by the insured

- A. reduces the value of the policy.
- B. avoids the policy.
- C. offsets the value of the policy with the additional insurances's value.
- D. forfeits premiums already paid.

65. X found a check on the street, drawn by Y against ABC Bank, with Z as payee. X forged Z's signature as an indorser, then indorsed it personally and delivered it to DEF Bank. The latter, in turn, indorsed it to ABC Bank which charged it to the Y's account. Y later sued ABC Bank but it set up the forgery as its defense. Will it prosper?

- A. No, since the payee's signature has been forged.
- B. No, since Y's remedy is to run after the forger, X.
- C. Yes, since forgery is only a personal defense.
- D. Yes, since ABC Bank is bound to know the signature of Y, its client.

66. The rule is that no stock dividend shall be issued without the approval of

Bar Examination Questionnaire for Commercial Law
Set A

stockholders representing at least 2/3 of the outstanding capital stock at a regular or special meeting called for the purpose. As to other forms of dividends:

- A. a mere majority of the entire Board of Directors applies.
- B. a mere majority of the quorum of the Board of Directors applies.
- C. a mere majority of the votes of stockholders representing the outstanding capital stock applies.
- D. the same rule of 2/3 votes applies.

67. X, at Y's request, executed a Real Estate Mortgage (REM) on his (X's) land to secure Y's loan from Z. Z successfully foreclosed the REM when Y defaulted on the loan but half of Y's obligation remained unpaid. May Z sue X to enforce his right to the deficiency?

- A. Yes, but solidarily with Y.
- B. Yes, since X's is deemed to warrant that his land would cover the whole obligation.
- C. No, since it is the buyer at the auction sale who should answer for the deficiency.
- D. No, because X is not Z's debtor.

68. May a publicly listed universal bank own 100% of the voting stocks in another universal bank and in a commercial bank?

- A. Yes, if with the permission of the Bangko Sentral ng Pilipinas.
- B. No, since it has no power to invest in equities.
- C. Yes, as there is no prohibition on it.
- D. No, since under the law, the 100% ownership on voting stocks must be in either bank only.

69. Perils of the ship, under marine insurance law, refer to loss which in the ordinary course of events results from

- A. natural and inevitable actions of the sea.
- B. natural and ordinary actions of the sea.
- C. unnatural and inevitable actions of the sea.
- D. unnatural and ordinary actions of the sea.

70. Under the Intellectual Property Code, lectures, sermons, addresses or dissertations prepared for oral delivery, whether or not reduced in writing or other material forms, are regarded as

- A. non-original works.
- B. original works.
- C. derivative works.
- D. not subject to protection.

71. Can a drawee who accepts a materially altered check recover from the holder and the drawer?

- A. No, he cannot recover from either of them.
- B. Yes from both of them.

Bar Examination Questionnaire for Commercial Law
Set A

- C. Yes but only from the drawer.
- D. Yes but only from the holder.

72. The rule is that the intentional cancellation of a person secondarily liable results in the discharge of the latter. With respect to an indorser, the holder's right to cancel his signature is:

- A. without limitation.
- B. not limited to the case where the indorsement is necessary to his title.
- C. limited to the case where the indorsement is not necessary to his title.
- D. limited to the case where the indorsement is necessary to his title.

73. X, in the hospital for kidney dysfunction, was about to be discharged when he met his friend Y. X told Y the reason for his hospitalization. A month later, X applied for an insurance covering serious illnesses from ABC Insurance, Co., where Y was working as Corporate Secretary. Since X had already told Y about his hospitalization, he no longer answered a question regarding it in the application form. Would this constitute concealment?

- A. Yes, since the previous hospitalization would influence the insurer in deciding whether to grant X's application.
- B. No, since Y may be regarded as ABC's agent and he already knew of X's previous hospitalization.
- C. Yes, it would constitute concealment that amounts to misrepresentation on X's part.
- D. No, since the previous illness is not a material fact to the insurance coverage.

74. Several American doctors wanted to set up a group clinic in the Philippines so they could render modern medical services. If the clinic is to be incorporated under our laws, what is the required foreign equity participation in such a corporation?

- A. 40%
- B. 0%
- C. 60%
- D. 70%

75. X executed a promissory note in favor of Y by way of accommodation. It says: "Pay to Y or order the amount of Php50,000.00. Signed, X." Y then indorsed the note to Z, and Z to T. When T sought collection from Y, the latter countered as indorser that there should have been a presentment first to the maker who dishonors it. Is Y correct?

- A. No, since Y is the real debtor and thus, there is no need for presentment for payment and dishonor by the maker.
- B. Yes, since as an indorser who is secondarily liable, there must first be presentment for payment and dishonor by the maker.
- C. No, since the absolute rule is that there is no need for presentment for payment and dishonor to hold an indorser liable.
- D. Yes, since the secondary liability of Y and Z would only arise after presentment for payment and dishonor by the maker.

Bar Examination Questionnaire for Commercial Law
Set A

76. The Board of Directors of XYZ Corp. unanimously passed a Resolution approving the taking of steps that in reality amounted to willful tax evasion. On discovering this, the government filed tax evasion charges against all the company's members of the board of directors. The directors invoked the defense that they have no personal liability, being mere directors of a fictional being. Are they correct?

- A. No, since as a rule only natural persons like the members of the board of directors can commit corporate crimes.
- B. Yes, since it is the corporation that did not pay the tax and it has a personality distinct from its directors.
- C. Yes, since the directors officially and collectively performed acts that are imputable only to the corporation.
- D. No, since the law makes directors of the corporation solidarily liable for gross negligence and bad faith in the discharge of their duties.

77. T is the registered trademark owner of "CROCOS" which he uses on his ready-to-wear clothes. Banking on the popularity of T's trade mark, B came up with his own "CROCOS" mark, which he then used for his "CROCOS" burgers. T now sues B for trademark infringement but B argues that his product is a burger, hence, there is no infringement. Is B correct?

- A. No, since the owner of a well-known mark registered in the Philippines has rights that extends even to dissimilar kinds of goods.
- B. Yes, since the right of the owner of a well-known mark registered in the Philippines does not extend to goods which are not of the same kind.
- C. Yes, as B was in bad faith in coming up with his own "CROCOS" mark.
- D. No, since unlike T, he did not register his own "CROCOS" mark for his product.

78. A, the proprietor of a fleet of ten taxicabs, decides to adopt, as his business name, "A Transport Co., Inc." May this be allowed?

- A. No, it would be deceptive since he is a proprietor, not a corporation.
- B. No, since "A" is a generic name, not suitable for registration.
- C. Yes, since his line of business is public transportation.
- D. Yes, since such name would give his business a corporate identity.

79. T delivers two refrigerators to the warehouse of W who then issues a negotiable receipt undertaking the delivery of the refrigerators to "T or bearer." T entrusted the receipt to B for safekeeping only. B negotiated it, however, to F who bought it in good faith and for value. Who is entitled to the delivery of the refrigerators?

- A. T, since he is the real owner of the refrigerators.
- B. F, since he is a purchaser in good faith and for value.
- C. B, since T entrusted the receipt to him.
- D. W, since he has as a warehouseman a lien on the goods.

80. The Articles of Incorporation must be accompanied by a Treasurer's Affidavit certifying under oath, among others, that the total subscription paid is:

Bar Examination Questionnaire for Commercial Law
Set A

- A. not less than P25,000.00.
- B. not more than P5,000.00.
- C. RIGHT ANSWER not less than P5,000.00.
- D. not more than P25,000.00.

81. In a special meeting called for the purpose, 2/3 of the stockholders representing the outstanding capital stock in X. Co. authorized the company's Board of Directors to amend its By-laws. By majority vote, the Board then approved the amendment. Is this amendment valid?

- A. No since the stockholders cannot delegate their right to amend the By-laws to the Board.
- B. Yes since the majority votes in the Board was sufficient to amend the By-laws.
- C. No, because the voting in the Board should have been by majority of a quorum.
- D. Yes since the votes of 2/3 of the stockholders and majority of the Board were secured.

82. A group of Malaysians wanted to invest in the Philippines' insurance business. After negotiations, they agreed to organize "FIMA Insurance Corp." with a group of Filipino businessmen. FIMA would have a PhP50 Million paid up capital, PhP40 Million of which would come from the Filipino group. All corporate officers would be Filipinos and 8 out of its 10-member Board of Directors would be Filipinos. Can FIMA operate an insurance business in the Philippines?

- A. No, since an insurance company must have at least PhP75 Million paid-up capital.
- B. Yes, since there is substantial compliance with our nationalization laws respecting paid-up capital and Filipino dominated Board of Directors.
- C. Yes, since FIMA's paid up capital more than meets the country's nationalization laws.
- D. No, since an insurance company should be 100% owned by Filipinos.

83. Under the Public Service Act, an administrative agency has the power to approve provisionally the rates of public utilities without a hearing in case of urgent public needs. The exercise of this power is

- A. supervisory.
- B. absolute.
- C. discretionary.
- D. mandatory.

84. X, creditor of Y, obtained a judgment in his favor in connection with Y's unpaid loan to him. The court's sheriff then levied on the goods that Y stored in T's warehouse, for which the latter issued a warehouse receipt. A month before the levy, however, Z bought the warehouse receipt for value. Who has a better right over the goods?

- A. T, being the warehouseman with a lien on the goods
- B. Z, being a purchaser for value of the warehouse receipt
- C. X, being Y's judgment creditor
- D. Y, being the owner of the goods

Bar Examination Questionnaire for Commercial Law
Set A

85. A promissory note states, on its face: "I, X, promise to pay Y the amount of Php 5,000.00 five days after completion of the on-going construction of my house. Signed, X." Is the note negotiable?

A. Yes, since it is payable at a fixed period after the occurrence of a specified event.

B. No, since it is payable at a fixed period after the occurrence of an event which may not happen.

C. Yes, since it is payable at a fixed period or determinable future time.

D. No, since it should be payable at a fixed period before the occurrence of a specified event.

86. P sold to M a pair of gecko (tuko) for Php50,000.00. M then issued a promissory note to P promising to pay the money within 90 days. Unknown to P and M, a law was passed a month before the sale that prohibits and declares void any agreement to sell gecko in the country. If X acquired the note in good faith and for value, may he enforce payment on it?

A. No, since the law declared void the contract on which the promissory note was founded.

B. No, since it was not X who bought the gecko.

C. Yes, since he is a holder in due course of a note which is distinct from the sale of gecko.

D. Yes, since he is a holder in due course and P and M were not aware of the law that prohibited the sale of gecko.

87. P authorized A to sign a bill of exchange in his (P's) name. The bill reads: "Pay to B or order the sum of Php1 million. Signed, A (for and in behalf of P)."

The bill was drawn on P. B indorsed the bill to C, C to D, and D to E. May E treat the bill as a promissory note?

A. No, because the instrument is payable to order and has been indorsed several times.

B. Yes, because the drawer and drawee are one and the same person.

C. No, because the instrument is a bill of exchange.

D. Yes, because A was only an agent of P.

88. Z wrote out an instrument that states: "Pay to X the amount of Php1 Million for collection only. Signed, Z." X indorsed it to his creditor, Y, to whom he owed Php1 million. Y now wants to collect and satisfy X's debt through the Php1 million on the check. May he validly do so?

A. Yes, since the indorsement to Y is for Php1 Million.

B. No, since Z is not a party to the loan between X and Y.

C. No, since X is merely an agent of Z, his only right being to collect.

D. Yes, since X owed Y Php1 Million.

89. X Shipping, Co., insured its vessel MV Don Teodoro for Php100 Million with ABC Insurance, Co. through T, an agent of X Shipping. During a voyage, the vessel accidentally caught fire and suffered damages estimated at Php80 Million. T personally informed ABC Insurance that X Shipping was abandoning the ship.

Bar Examination Questionnaire for Commercial Law
Set A

Later, ABC insurance denied X Shipping's claim for loss on the ground that a notice of abandonment through its agent was improper. Is ABC Insurance right?

- A. Yes, since X Shipping should have ratified its agent's action.
- B. No, since T, as agent of X Shipping who procured the insurance, can also give notice of abandonment for his principal.
- C. Yes, since only the agent of X Shipping relayed the fact of abandonment.
- D. No, since in the first place, the damage was more than $\frac{3}{4}$ of the ship's value.

90. A law was passed disqualifying former members of Congress from sitting in the Board of Directors of government-owned or controlled corporations. Because of this, the Board of Directors of ABC Corp., a government-owned and controlled corporation, disqualified C, a former Congressman, from continuing to sit as one of its members. C objected, however, insisting that under the Corporation Code members of the board of directors of corporations may only be removed by vote of stockholders holding $\frac{2}{3}$ of its outstanding capital stock in a regular or special meeting called for that purpose. Is C correct?

- A. Yes, since the new law cannot be applied to members of the board of directors already elected prior to its passage.
- B. No, since the disqualification takes effect by operation of law, it is sufficient that he was declared no longer a member of the board.
- C. Yes, since the provisions of the Corporation Code applies as well to government-owned and controlled corporations.
- D. No, since the board has the power to oust him even without the new law.

91. 002-38-0001 G, a grocery goods supplier, sold 100 sacks of rice to H who promised to pay once he has sold all the rice. H meantime delivered the goods to W, a warehouseman, who issued a warehouse receipt. Without the knowledge of G and W, H negotiated the receipt to P who acquired it in good faith and for value. P then claimed the goods from W, who released them. After the rice was loaded on a ship bound for Manila, G invokes his right to stop the goods in transit due to his unpaid lien. Who has a better right to the rice?

- A. RIGHT ANSWER P, since he has superior rights as a purchaser for value and in good faith.
- B. P, regardless of whether or not he is a purchaser for value and in good faith.
- C. G, since as an unpaid seller, he has the right of stoppage in transitu.
- D. W, since it appears that the warehouse charges have not been paid.

92. In a signature by procuration, the principal is bound only in case the agent acted within the actual limits of his authority. The signature of the agent in such a case operates as notice that he has

- A. a qualified authority to sign.
- B. a limited authority to sign.
- C. a special authority to sign.
- D. full authority to sign.

93. In return for the 20 years of faithful service of X as a househelper to Y, the latter promised to pay Php100,000.00 to X's heirs if he (X) dies in an accident by fire. X agreed. Is this an insurance contract?

Bar Examination Questionnaire for Commercial Law
Set A

- A. Yes, since all the elements of an insurance contract are present.
- B. Yes, since X' services may be regarded as the consideration.
- C. No, since Y actually made a conditional donation in X's favor.
- D. No, since it is in fact an innominate contract between X and Y.

94. A bill of exchange states on its face: "One (1) month after sight, pay to the order of Mr. R the amount of Php50,000.00, chargeable to the account of Mr. S. Signed, Mr. T." Mr. S, the drawee, accepted the bill upon presentment by writing on it the words "I shall pay Php30,000.00 three (3) months after sight." May he accept under such terms, which varies the command in the bill of exchange?

- A. Yes, since a drawee accepts according to the tenor of his acceptance.
- B. No, since, once he accepts, a drawee is liable according to the tenor of the bill.
- C. Yes, provided the drawer and payee agree to the acceptance.
- D. No, since he is bound as drawee to accept the bill according to its tenor.

95. May the indorsee of a promissory note indorsed to him "for deposit" file a suit against the indorser?

- A. Yes, as long as the indorser received value for the restrictive indorsement.
- B. Yes, as long as the indorser received value for the conditional indorsement.
- C. Yes, whether or not the indorser received value for the conditional indorsement.
- D. Yes, whether or not the indorser received value for the restrictive indorsement.

96. X issued a check in favor of his creditor, Y. It reads: " Pay to Y the amount of Seven Thousand Hundred Pesos (Php700,000.00). Signed, X". What amount should be construed as true in such a case?

- A. Php700,000.00.
- B. Php700.00.
- C. Php7,000.00.
- D. Php700,100.00.

97. Shipowner X, in applying for a marine insurance policy from ABC, Co., stated that his vessel usually sails middle of August and with normally 100 tons of cargo. It turned out later that the vessel departed on the first week of September and with only 10 tons of cargo. Will this avoid the policy that was issued?

- A. Yes, because there was breach of implied warranty.
- B. No, because there was no intent to breach an implied warranty.
- C. Yes, because it relates to a material representation.
- D. No, because there was only representation of intention.

98. The Articles of Incorporation of ABC Transport Co., a public utility, provides for ten (10) members in its Board of Directors. What is the prescribed minimum number of Filipino citizens in its Board?

- A. 10
- B. 6

Bar Examination Questionnaire for Commercial Law
Set A

- C. 7
- D. 5

99. P authorized A to sign a negotiable instrument in his (P's) name. It reads: "Pay to B or order the sum of Php1 million. Signed, A (for and in behalf of P)." The instrument shows that it was drawn on P. B then indorsed to C, C to D, and D to E. E then treated it as a bill of exchange. Is presentment for acceptance necessary in this case?

- A. No, since the drawer and drawee are the same person.
- B. No, since the bill is non-negotiable, the drawer and drawee being the same person.
- C. Yes, since the bill is payable to order, presentment is required for acceptance.
- D. Yes, in order to hold all persons liable on the bill.

100. The corporate term of a stock corporation is that which is stated in its Articles of Incorporation. It may be extended or shortened by an amendment of the Articles when approved by majority of its Board of Directors and:

- A. approved and ratified by at least 2/3 of all stockholders.
- B. approved by at least 2/3 of the stockholders representing the outstanding capital stock.
- C. ratified by at least 2/3 of all stockholders.
- D. ratified by at least 2/3 of the stockholders representing the outstanding capital stock.

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