

Joint Insolvency Examination Board

11 NOVEMBER 2025

3.5 HOURS

CORPORATE INSOLVENCY Scotland

This exam consists of **four** questions (100 marks).

Marks breakdown

Question 1	20 marks
Question 2	20 marks
Question 3	20 marks
Question 4	40 marks

References to legislation are to that which was in force on 30 April 2025.

References to ‘the Act’ are to the Insolvency Act 1986 as amended.

References to Sections, Schedules and Rules are to Sections and Schedules of the Act and to Rules of the relevant Insolvency Rules in Scotland.

References to Sections and Rules of other Acts, Regulations and Orders will mention the Act, Regulation or Order.

Important information

Please read this information carefully before you begin your exam.

Starting the exam

Click on the right-hand arrow in the header to begin the exam. The exam timer will begin to count down.

Preparing your answers

Answer all questions.

Respond directly to the exam question requirements. Do not include any content of a personal nature, such as your name.

Copying over answers for marking

Only your answer in the answer area will be marked. You **MUST** copy over any data for marking from the spreadsheet area to the answer area.

Issues during the exam

If you encounter any issues during the exam you should tell the invigilator as they may be able to resolve the issue at the time. The invigilator cannot advise you on how to use the software.

Ending the exam

When the exam timer reaches zero, the exam will end. To end the exam earlier, go to the last question and click the right-hand arrow button, then click the **Submit** button to close the exam.

Question 1

You are an Authorised Insolvency Practitioner. You were appointed as Liquidator in a Creditors' Voluntary Liquidation of Millennium Barges Limited ("the Company") approximately 18 months ago.

As part of your investigations, you have determined a number of actions against the three directors ("the Directors") of the Company and an associated company (together "the Respondents") which could potentially realise funds for the benefit of creditors. The Respondents have not been helpful with the provision of information and to date their Solicitors have denied all allegations.

One of the possible actions relates to a transaction that took place approximately five years and seven months ago.

You have sought advice from your legal team and your Advocate considers that all of the actions have a good (60%) chance of success if legal proceedings were to be issued. A Letter Before Action has been issued to the Respondents setting out the full particulars of the claims which include both Company and Office Holder actions. The total of all the claims amounts to approximately £1 million.

The limited funds available in the case have been used to fund the instruction of Counsel to provide an opinion on the prospects of success should proceedings be issued at Court. Your Solicitors have been working on a contingency fee basis. The Letter Before Action provided the Respondents with 21 days to reply before legal proceedings are to be considered. Your legal team advises that the only way forward to progress this matter is likely to be to issue proceedings.

Requirements

- (a) **List the powers and possible actions available to a Liquidator to bring legal proceedings either as Office Holder or on behalf of the Company.**
(2 marks)
- (b) **Explain what due diligence you would perform on the financial position of the Respondents before deciding whether or not to issue legal proceedings.**
(3 marks)
- (c) **As there are no monies available in the case, explain what options may be available to you to fund the pursuit of the claims. Set out the risks, advantages and disadvantages of each option for both you and the creditors.**
(8 marks)

Prior to the expiry of the 21day deadline, your Solicitors receive a letter from the Respondents' Solicitors requesting a mediation meeting to potentially agree a settlement to avoid proceedings being issued. You have agreed and have arranged to meet in 14 days' time.

To assist you in the mediation meeting your legal team has provided the following estimates of the costs and disbursements that would be incurred should legal proceedings be issued:

Cost	£	Notes
Issue fees (against 4 parties)	40,000	
Solicitors' fees (time costs)	100,000	
Solicitors' fees (success fee)	100,000	100% uplift on success due to contingent nature
Counsel's fee (time costs)	50,000	
Counsel's fee (success fee)	50,000	100% uplift on success due to contingent nature
Insurance premium to cover potential adverse costs if case unsuccessful	175,000	Payable in the event of success only
Disbursements	10,000	To be funded from available funds
Expert Witness costs	10,000	To be funded from available funds

It is estimated that your firm's time costs for dealing with the litigation and the associated case maintenance for the additional time of the proceedings would be in the region of £100,000.

Your legal team has advised that, should you be successful in the litigation, your Solicitors' and Advocate's time costs will be partly recoverable from the Respondents. They further advise that, as a general guide, the Court will grant an award of 70% of these time costs.

Your financial due diligence has also been finalised and you are satisfied that all of the Respondents have significant wealth with assets readily available.

Requirement

- (d) **To assist you in the mediation, provide an estimate of the net outcome to creditors from the litigation should you be successful in Court proceedings. You should assume that judgment is obtained for the full value of the claims.**
(4 marks)

During the mediation meeting the Respondents make an offer of £500,000 to settle all of the claims.

Requirement

- (e) **Set out your thoughts on the offer and on the potential advantages and disadvantages of settling the claims without issuing proceedings.**
(3 marks)

Note: ignore VAT

Total: (20 marks)

Question 2

You are an Authorised Insolvency Practitioner. You have been approached by the Board of OastHouse Law Limited (“the Board” and “the Company”), an Edinburgh based law firm regulated by the Law Society of Scotland (“LSS”).

The Board has advised you that, for various reasons, the Company is not able to continue trading beyond 31 March 2026. Attempts have been made to sell either the Company or its business and assets to competitor law firms but without success. The Company is balance sheet insolvent but, because of current arrangements in place with creditors, cashflow forecasts show that it could continue to trade up to 31 March 2026 if deemed appropriate.

The Board is considering two options: a managed wind down or an immediate closure, both to be quickly followed by a formal insolvency procedure. In the case of a managed wind down it is anticipated that the Company will go into Administration. If the Company closes immediately, a Liquidator will be appointed.

Work In Progress (“WIP”)

The Company’s main asset is its WIP which relates to work performed on a wide range of cases.

Most cases could be completed by 28 February 2026 generating expected billings and cash of £3.6 million (including VAT). The estimated costs to complete and bill the cases between 1 November 2025 and 31 March 2026 are as follows:

	£
Fee earners and support staff – net salaries	800,000
Fee earners and support staff - PAYE and NI	300,000
General overheads and property costs (including VAT)	240,000

The current book value of the WIP is £2 million but is not complete and cannot be realised immediately. In an immediate close down situation, due to the limited time available to perform due diligence it is estimated that another firm would pay 5% of the current WIP value.

Trading premises

The freehold property from which the Company trades has been extensively marketed for sale by a reputable firm of agents. A cash bidder has offered £750,000 and is willing to exchange contracts and pay a non-refundable deposit, with completion on 30 April 2026. Property holding costs of £5,000 per month (excluding VAT) are included within the forecast overheads (detailed above) and would need to be incurred to secure and maintain the property in any event. The property was bought in 2018 for £350,000.

Employees

In a managed wind down, it is anticipated that all 45 members of staff will be made redundant on 31 March 2026 (after dealing with billing, Client Account monies and finalising the regulatory wind down). At that point staff will be entitled to statutory redundancy only, estimated at an average of £12,500 per employee.

All current holiday pay entitlements of £100,000 will be paid during the wind down period. Retention bonuses will also be paid costing a further £125,000. It is thought that the staff will quickly obtain jobs within the legal sector on similar amounts of pay. The current accrual for the November payroll is £125,000.

The Bank

The Bank is currently owed £750,000 on a term loan and £200,000 in relation to an overdraft. The Bank's security comprises a Standard Security over the freehold property and a floating charge over all the assets. The security was granted in 2020. Term loan repayments of £15,000 per month are not in default and the overdraft is within the agreed facility of £350,000.

The Bank has confirmed that it will support any managed wind down strategy that would allow the orderly sale of the property or improve recoveries under the floating charge. To assist cashflow, the Bank would allow a capital and interest payment holiday on the term loan but would need to implement a staged reduction of the overdraft facility between now and 28 February 2026. Interest is charged at 5% per annum on the term loan facility.

There is currently £500,000 in a Client Account and it is estimated that this will reduce to £100,000 by 28 February 2026 as cases are completed.

Your firm, agents and solicitors have agreed to cap combined fees on the sale of the property at 5% of realisations.

HMRC

The Company currently owes HMRC £325,000 in relation to PAYE/NI and £462,000 in relation to VAT.

Of the outstanding debt, £500,000 is subject to a Time to Pay Agreement ("TTP") made in early 2025, with monthly repayments of £40,000, payable at the end of each month. PAYE and NI for the October 25 payroll amounts to £87,000 and the VAT liability up to the quarter ended 31 October 2025 amounts to £200,000.

Other relevant information

At 31 October 2025, there are "on account" bills of £175,000 raised by the Company that have not been paid. Other than one bad debt of £30,000, these are all expected to be paid in January 2026, but only if the legal services provided by the Company are continued.

The cost of professional indemnity "run off" cover is estimated at £500,000 and, under the terms of the policy, will be payable at the end of the managed wind down or on immediate closure. You have received legal advice that the cost will rank as an unsecured claim in both scenarios.

Based on legal advice received and mindful of their fiduciary duty to creditors, the Board has set out their conditions for performing a managed wind down as follows:

- no creditor position must worsen;
- except for "run off" cover and redundancy costs, all liabilities incurred in the managed wind down period are to be paid from cashflow; and

- to avoid breaching the terms of the TTP and a winding up petition being issued by HMRC, all payments due under the TTP (together with current HMRC debt) are to be made from cashflow.

Requirements

- (a) Compare and contrast the treatment under the Rules of any corporation tax liabilities arising on the sale of a freehold property by a limited company prior to its entering into any formal insolvency process with the liabilities arising on a sale by that company's Administrator or Liquidator after formal insolvency proceedings have begun.

(3 marks)

- (b) Prepare an estimated outcome statement which sets out the likely outcome for creditors of the Company under each of the two scenarios being considered by the Board. Assume in each case that the freehold property is sold by the Administrator or Liquidator as the case may be.

(17 marks)

Total: (20 marks)

Note: VAT is at 20%

Question 3

You are an Authorised Insolvency Practitioner. Due to the sudden ill health of an Insolvency Practitioner within your firm, you have agreed to be appointed as replacement office holder on approximately 80 mixed corporate cases.

Requirement

- (a) **What is the most expedient way to deal with the changes in office holder and what are the legal and practical requirements to do so?**

(6 marks)

In advance of your appointment you ask one of your Senior Managers to perform an urgent review of the 80 cases to highlight any immediate issues and to determine the work needed to be done on each case. You receive the following memo.

Depsad Waste Limited (“the Company”) in Members’ Voluntary Liquidation (“MVL”)

Due to impending increases in the rates of tax on capital gains effective from 6 April 2025, as introduced by the 2024 Budget, the firm was approached in late March 2025 to urgently place the Company into MVL and to make an immediate distribution to Shareholders. This was agreed and the Company was placed into MVL on 31 March 2025.

The Declaration of Solvency disclosed cash at bank of £1.1 million, trade debtors of £400,000 and estimated liabilities and liquidation costs of £500,000 resulting in an estimated surplus to Shareholders of £1 million. An interim distribution of £1 million was made to the two equal Shareholders on 2 April 2025 from the available cash at bank.

The Company operated in the waste disposal sector. Since the distribution to Shareholders was made there have been significant claims received in respect of clean-up costs and regulatory fines. In addition, it appears that virtually none of the trade debtors is collectable. It is now apparent that the Company’s liabilities are significantly in excess of the amounts estimated.

Requirement

- (b) **Explain what due diligence should have been carried out and what protective measures should have been taken by the Liquidator prior to making the interim distribution to the Shareholders.**

(6 marks)

Your review indicated that the appropriate due diligence was conducted and the necessary protective measures were put in place by the original Liquidator. Upon consideration of the circumstances, you have concluded that it is acceptable for you to consent to act as replacement liquidator in the MVL. It has now become clear that the Company’s liabilities to creditors exceed £1.5 million.

Requirements

- (c) In view of the liabilities to creditors, what steps should now be taken by you and what are the potential implications for the Directors of the Company?**
(6 marks)
- (d) Assuming the Directors and Shareholders are to be pursued for financial recovery and that they have the appropriate financial means, what recovery options are available?**
(2 marks)

Total: (20 marks)

Note: ignore VAT

Question 4

You are an Authorised Insolvency Practitioner. You have been instructed by PC Brewers Limited ("the Company") which is in financial difficulties. From what you have seen, you have concluded that HMRC are likely to issue a winding up petition in the next few weeks.

You have been engaged initially to commence a marketing campaign to establish if there is any interest from third parties in either a share purchase or, more likely, the purchase of the business and assets out of a pre-pack Administration process.

Several interested parties have been identified, who have all had full access to the Company's management and to data made available in order to perform the required due diligence. To avoid any potential negative publicity, the Company has requested that the filing of any Notice of Intention to Appoint Administrators ("NOI") is filed as late as possible.

The recent deadline for "best and final" offers to be received has passed and you have identified two interested parties, being a local competitor ("the Competitor") and a management buyout team led by a current Director and Shareholder of the Company ("the MBO Team").

The offers that have been received are as follows:

	Note	The Competitor	The MBO Team
Unencumbered plant and machinery		£1,750,000	£1,250,000
Stock	1	See below	See below
Goodwill, name etc		£250,000	£200,000
Motor fleet	2	£1,000,000	£725,000
Trade debtor collection fee	3	25%	No charge
Consideration to be paid on completion		75% with the balance to be paid over 6 months	100%

Notes:

1. Stock

The stock is recorded in the books at its original cost of £1.5 million. Stock, that is potentially subject to retention of title ("ROT") claims, is estimated at £300,000. Stock that has been on the premises longer than 12 months amounts to £200,000. The Competitor has offered to pay 90% of the stock's book value, excluding stock subject to ROT or over 12 months old. The MBO Team considers that all stock is able to be utilised and commercial terms agreed with suppliers, and therefore they have offered to pay the full book value, less an allowance of 50% for the ROT stock.

2. Motor fleet

Part of the motor fleet is subject to finance on hire purchase agreements. The outstanding finance on these agreements amounts to £250,000 and title passes on settlement. The finance companies have confirmed that they will transfer agreements to any purchaser if requested to. The Competitor requires the Company to redeem all outstanding finance on

completion. The MBO Team has indicated that it will be prepared to adopt the Company's obligations under the finance agreements.

3.Trade debtors

Trade debtors, which have a book value of £2.5 million, are excluded from the sale. There are specific bad debts identified of £500,000 and for collection purposes, a general provision of 10% should be applied against the remaining debtors.

Other information

Other information relevant to the proposed sale is:

- Both interested parties are seeking a six month licence to occupy the current trading premises whilst an assignment of the lease is negotiated with the Landlord.
- All employees are to be transferred.
- Both offers are acceptable to your appointed agents.
- Both interested parties have provided evidence of funding and there are no issues with the results of money laundering checks that have been carried out. You are satisfied that both parties would be able to conclude the transaction.
- TF Bank plc has a floating charge (Qualifying Floating Charge ("QFC")) and are fully supportive of your strategy and proposed appointment. They have also advised that they would rather not make the appointment as QFC holder but they will consent to the NOI as soon as it is served on them. It is therefore proposed that the Directors appoint the Administrators under Paragraph 22 of Schedule B1.
- Both interested parties have requested a short period of exclusivity to be secured by a £100,000 non-refundable deposit to be deducted from the sale price on completion.

Requirements

- (a) **Appraise both offers, setting out any advantages and disadvantages of each. Giving your reasons, make a recommendation for which of the offers should be accepted.**

(8 marks)

- (b) **In the context of Administrations and pre-pack sales, what is the definition of a connected party?**

(2 marks)

You have decided that the offer from the MBO Team should be accepted. You have also concluded that the MBO Team is a connected party.

Requirements

- (c) **Explain the additional steps that you, the MBO Team and any relevant third party will need to take in order to reach the position where you are satisfied that the sale to the MBO Team can proceed.**
(11 marks)
- (d) **Following your decision to proceed with the best offer, set out the key legal documentation you would require to execute the transaction and the main provisions that you would expect to see in each document.**
(5 marks)

You are now close to concluding the negotiation of the legal documentation with a view to being appointed as Administrator by the Directors within the next 48 hours. However, you have identified that a winding up petition has recently been issued by HMRC but this has not yet been served on the Company.

Requirement

- (e) **Explain the implications of the winding up petition being issued on the proposed strategy to place the Company into Administration and any potential changes to the strategy that may be applicable.**
(4 marks)

Due to the financial position of the Company, there are limited funds available for professional costs and your firm, agents and solicitors have all worked on a contingent basis. You anticipate that there will be significant outstanding costs once the Company is in Administration and the sale has completed.

Requirements

- (f) **Explain whether the pre-appointment costs can be recovered and, if they can be, how you would seek to ensure that all involved get paid for their work.**
(6 marks)
- (g) **What are the requirements and associated timescales for notifying creditors of your appointment and of the transaction in the circumstances set out above?**
(4 marks)

Total: (40 marks)