Joint
Insolvency
Examination
Board

Joint Insolvency Examination Board

10 NOVEMBER 2026

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 2026. 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 Insolvency (Scotland) Rules 2018.

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

Instructions

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. Show all workings. Do not include any content of a personal nature, such as your name.

Copying over answers for marking

Only the data 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 have been approached by Mr and Mrs Smith who wish to retire from their leisure business. As part of their plans, they wish to extract value from the company they jointly own ("the Company"). As there was no succession plan within the Company, it ceased to trade on 31 August 2026, has realised most its assets and largely paid its creditors.

Mr and Mrs Smith have undertaken internet research and want to explore placing the Company into members' voluntary liquidation and have arranged to attend your office next week to discuss the matter.

They have provided the following financial information relating to the Company as at 31 October 2026:

Assets	£	**Note**
Cash at Bank	1,000,000	**1**
Holiday letting property – Ayrshire (Valuation)	500,000	**2**
Directors Loan Account – Mr Smith	250,000	
	1,750,000	
Liabilities		
HMRC – Corporation Tax	250,000	**3**
Accruals	25,000	**4**
	275,000	
	1,475,000	
Capital and reserves		
Share capital (15,000 ordinary £1 shares)	15,000	**5**
Revaluation reserve	200,000	
Profit and Loss Account	1,260,000	
	1,475,000	

Notes

1. Mr and Mrs Smith would like a substantial early cash distribution as they are moving to Portugal and have made an offer on a property (that requires a deposit to secure).

2. Mr and Mrs Smith would also like to transfer the Ayrshire property to themselves, in joint ownership, so it can be used as their main UK home when they visit. The property was bought for £300,000 and a recent valuation by a reputable agent estimates it is now worth £500,000.

3. Corporation Tax relates to the final period of trading to 31 August 2026.

4. Accruals consist of the estimated costs of liquidation, final accountancy fees and the legal costs associated with the transfer of the Ayrshire property.

5. Mr Smith holds 10,000 of the issued share capital and Mrs Smith holds the remaining shares. All shares attract the same voting and distribution rights.

6. Mr and Mrs Smith are both directors of the Company.

Requirements

In preparation for the meeting, prepare notes providing:

(a) An outline of the options available to Mr and Mrs Smith to realise the equity available in the Company. Set out the major differences between the options and what other professional advice they should seek to assist them with their affairs.

(5 marks)

(b) An outline of the procedure, the key documents required to place the Company into liquidation at short notice and an explanation of the purpose of each document.

(4 marks)

(c) Your thoughts on the request for an early distribution setting out the risks and any practical steps that could be taken by the Liquidator to mitigate risk.

(5 marks)

(d) An explanation of how the Liquidator would deal with the remaining assets on appointment, taking into account the wishes of Mr and Mrs Smith.

(3 marks)

(e) A draft distribution statement showing the cash and assets available to Mr and Mrs Smith respectively in the MVL

(3 marks)

Note: Ignore Value Added Tax

(Total: 20 marks)

Question 2

You are an Authorised Insolvency Practitioner. You have been appointed as joint (and lead) administrator of Hazard Portfolio Estates Limited ("the Company") under paragraph 22 of Schedule B1 to the Insolvency Act 1986.

The Company owns a mixed portfolio of residential investment properties subject to loans from various lending organisations ("the Lenders") who have taken standard securities and bond and floating charges.

A rise in interest rates and an increase in the number of rental properties becoming vacant resulted in the Company being unable to meet the monthly interest payments and pay general maintenance costs. Due to a decrease in property values, it is expected that the majority of the properties will be in negative equity and any surpluses available on individual properties will be caught by consolidation clauses within the terms of the loan agreements. There are no other assets.

You are due to commence the drafting of the Administrators' Proposals and in the circumstances of the case, you have formed the view that you cannot achieve the statutory purposes of administration as set out in paragraph 3(1)(a) or (b) of Schedule B1 of the Insolvency Act.

A consensual approach has been taken by a consortium of the Lenders and they have agreed to provide initial funding of £100,000 to cover the various costs associated with managing a residential portfolio with tenants in situ, whilst a longer term solution is formulated. This is to be treated as a loan and to be refunded in the event there are sufficient funds generated by the Administrators to do so.

Requirements

(a) What practical considerations and regulatory matters should be considered and what further information should be gathered from the directors and instructed professional advisers in order to manage and progress the case?

(9 marks)

(b) With reference to the circumstances of the case, set out the procedure for obtaining approval of the Administrators' Proposals, including the key timescales for doing so.

(5 marks)

(c) One of the larger Lenders, who is not part of the consortium, has expressed concerns about your costs relating to their properties as the properties they hold an interest in are some of the few which are not in negative equity. This Lender has a bond and floating Charge dated 10 April 2003 and has stated that they want to take control of the portfolio and appoint a Receiver. Explain whether and how the Lender may seek to pursue this course and the legal and practical basis for your response to their request.

(6 marks)

(Total: 20 marks)

Question 3

You are an insolvency manager and the firm that you are employed by is in negotiations to acquire the business and assets of another firm of insolvency practitioners ("the Target Firm").

The Managing Partner has asked you to undertake due diligence on a number of the corporate case files, report on both general compliance and on any specific issues identified on cases. In addition, due to the largest asset to be acquired being work in progress ("WIP"), you have been asked to review the collectability of the WIP from a commercial standpoint. WIP consists of time costs incurred on each case and, in some cases, provisions have already been made around recoverability. There are approximately 100 live corporate insolvency matters.

Requirement

(a) Assuming the acquisition is to proceed, what ethical considerations should be considered generally before the acquisition, what ethical issues might subsequently arise and what safeguards could be implemented to mitigate ethical threats and commercial risk?

(5 marks)

Following your review, you have identified the following cases with specific commercial issues. Each case has approved remuneration with the relevant approving bodies.

CASE 1 – IN COMPULSORY LIQUIDATION

Appointed in late 2025, and taking over from a Provisional Liquidator, the only potential asset recovery in the case relates to a significant overdrawn director's loan account, built up over a number of years.

There is a file note setting out that the Director has been co-operative with the Liquidator. The director has advised that he doesn't own any assets and confirmed this in a statement of assets and liabilities. The conclusion of the SIP 2 investigations is that he appears to have spent the monies withdrawn on a lavish lifestyle including family holidays, expensive meals etc.

In correspondence, the Director has advised that, to avoid the embarrassment that would be caused by being sequestrated, he has a friend willing to fund a settlement of £35,000, in full and final settlement. The Liquidator has authorised the deal and has instructed solicitors to prepare a settlement agreement at a fixed fee of £2,500. No other costs have been incurred by the Liquidator other than for customary statutory duties. The Provisional Liquidator has unpaid and approved remuneration of £5,000.

The Target Firm has estimated the recovery of WIP at 75% of time costs incurred. Time costs currently stand at £43,000 with an estimated £7,000 to agree the settlement and close the case.

CASE 2 – IN ADMINISTRATION

The Administrators traded the business and assets to initially find a buyer (without success) and then complete the order book.

The company operated from two trading premises. One property was subject to a standard security with Funding Finders PLC ("the Funder") and one subject to a short term lease with Edinburgh City Council. The leasehold premises were used in the trading period and have now been surrendered to the landlord.

The Funder was granted a floating charge on 1 July 2002 and was owed £1.1 million on appointment. They agreed to freeze interest at the commencement of administration.

An agreement with the Funder was made whereby the Administrator could charge 2% of the amount realised for the sale of the property. Other professional costs dealing with the property

sale are 3% and have been paid from the sale proceeds. The property was sold for £1 million and there is advice from an accountant on file explaining that after utilisation of all available reliefs and losses, there is a crystallised tax charge of £100,000 to be paid and the relevant tax rate is 25%.

Following realisation of all floating charge assets and settlement of all other professional costs, there is currently a surplus available of £500,000. The finalisation of trading expenses has been concluded and there is £75,000 remaining to be paid to the landlord and other suppliers. All employees were paid their outstanding arrears of pay and holiday pay during the trading period.

Due to a competitive tendering process, the Target Firm has committed to restricting Administrators fees available under the floating charge to an amount which would allow full repayment to the Funder.

HMRC's proof of debt has been agreed and details outstanding tax liabilities of £127,000, comprised of PAYE and VAT of £95,000 and corporation tax for the last period of full year's trading is £32,000.

There is a pre closure file note explaining the remaining matters to finalise are:

1. the payment of final trading costs;
2. dealing with the tax charge on property sale with HMRC;
3. payment of administrators' fees;
4. preferential creditors and any prescribed part; and
5. the floating charge distribution.

The Target Firm has estimated the recovery of all WIP at 67% of time costs incurred. Time costs currently stand at £175,000 with an estimated £25,000 to finalise the above matters and close the case. On review of the detailed time costs ledger, the time costs include £40,000 of time spent dealing with the sale of the property and liaising with the Funder regarding the sale.

CASE 3 – IN CREDITORS' VOLUNTARY LIQUIDATION

Appointed in late 2023, the company was part of a group of companies that operated as a property development group, with the company being the trading entity within the group. The company leased a property which upon cessation of trade, there was £25,000 in rent owing to the landlord, with service charges of £5,000 outstanding, and agreed dilapidations of £30,000. All assets were sold on site post Liquidation with the agreement of the landlord and all post Liquidation liabilities in relation to the property sale have been settled and the net sum received from your agents from the asset sale was £40,000.

The company also owned another property which has now been sold with the net proceeds of £30,000 being received. The property sale created a chargeable gain of £15,000 (after all costs were paid).

There are no other assets to realise and the matter is ready for closure. There is a letter of advice from an accountancy firm advising the Corporation Tax rate is 25% together with an invoice for advice amounting to £2,500.

The Target Firm has estimated the recovery of WIP at 100% of time costs incurred. Time costs currently stand at £45,000 with an estimated £5,000 of time costs to finalise and close the case. Due to the complexities of the case, a special manager was appointed and fees agreed and not paid total £15,000.

Requirement

(b) In each case, estimate the amounts that are likely to be available to draw as remuneration, note whether the estimated WIP recovery calculations provided by the Target Firm appear accurate and calculate an updated estimated WIP valuation.

Include in your notes the details of relevant insolvency legislation that determines the amounts recoverable, where applicable.

(i. CASE 1 - 4 marks)
(ii. CASE 2 - 6 marks)
(iii. CASE 3 - 5 marks)

(15 marks)

(Total: 20 marks)

Question 4

You are an Authorised Insolvency Practitioner. You have just attended a meeting with the Board of Munitions Transportation Limited ("the Company"), which is facing financial challenges.

The Company operates as specialist haulage company and has several branches located across the United Kingdom. The Company is heavily regulated by the Traffic Commissioner and has an Operator's Licence ("O-Licence"). The O-Licence is not transferrable. The profitability of the Company has been impacted significantly by the rising fuel costs on its fixed price contracts.

The Company is a subsidiary of a US company and is part of a worldwide group of companies. Following pressure from the parent company, the board of directors ("the Board") performed a review of the Company's operations and identified several proposed changes.

The Company's main customer accounts for 50% of current turnover and supplies to the Ministry of Defence, delivering to various secure locations occupied by British armed forces ("MOD Customer"). Due to the vetting procedures involved and the detailed procurement process, the contract is strictly non transferrable, however, as a result of the recent fuel price escalation, the Company is already in the process of negotiating revised terms. The MOD customer is aware of the financial position of the Company and is willing to support by implementing future price increases and by supporting the Company through an appropriate form of restructuring, without termination of the contract, provided there is an assurance of uninterrupted continuity of service.

The Company's remaining turnover relates to contracts with customers requiring deliveries to UK airports. Due to the nature of the work, every driver is subject to clearance of detailed security checks that take up to 3 months to complete.

As part of the operational and financial review, the Board has identified that it must make several other changes to return the business to profitability but does not have the necessary funds required to restructure. These changes include closing down one site subject to leasehold agreement, changes to the pricing model and workforce redundancies. Without these changes, the Board estimates that the Company will run out of cash within 6 to 9 months.

The Company is currently insolvent and in arrangements with several creditors, including HMRC, landlords and trade creditors. The Company is managing to maintain these repayments at present, but pressure is increasing.

The Board believe with some restructuring, there is a viable business which could take advantage of expected increased activity over the forthcoming years. However, they have failed in their attempts to procure further finance due to the inability for invoice finance to be raised against the Company's restrictive contracts. Following discussions with the Company's solicitors, it is apparent to the Board that the Company has insufficient funding available to pursue a restructuring plan.

The Company has set aside some funds, in a separate bank account, to cover the professional costs associated with an alternative form of restructuring. They have asked for your bank details to make an immediate bank transfer to enable work to commence.

Requirements

(a) Outline the steps that you would take to onboard the client and any additional factors to be considered before any work should commence.

(5 marks)

(b) Write to the Board providing a high level overview of the options that may be available to address the company's position. Applying the facts as set out, make a recommendation as to the most appropriate option and provide reasons why you do not consider the alternatives would achieve the Board's stated goals.

(12 marks)

Now your firm has been engaged, you have been provided with further details of the recent financial performance and proposed changes to the business' activities.

Kilmarnock branch

Latest management accounts indicate that the Kilmarnock branch currently loses £240k per year on achieved turnover of £1 million per year (both financial losses and cash). The Company intends to close this branch as part of the formal process.

The branch occupies leased premises within the close vicinity of Prestwick Airport and is paying a premium as a result. The lease has 5 years remaining and the rent and service charge is £50,000 per quarter.

You have obtained a report from an independent chartered surveyor which explains that demand for premises in the area is weak and they expect the landlord to struggle to find a tenant on the same terms. They consider that the market rent is approximately 50% of the current rent being charged and that it may take the landlord 12 months to find a tenant. In addition, the report estimated dilapidation costs at £100k.

There are 4 senior members of staff remaining who are responsible for the management of the Kilmarnock operation and there are no opportunities to redeploy the current staff to another branch:

Employee	Title	Salary (£)	Started employment	Age	Notice provision
A	Branch Manager	75,000	1 October 2000	63	6 months
B	Transport Manager	50,000	1 August 2019	48	3 months
C	Sales Manager	30,000	1 May 2022	40	3 months
D	Finance Manager	40,000	1 March 2025	35	3 months

Due to local market conditions, it is not expected that the Branch Manager and Transport Manager will be able to find alternative employment in the short term. The Branch manager has enhanced contractual redundancy rights entitling him to an amount calculated on a current month's salary for each full year employed.

The Sales and Finance managers have served notice that they are leaving for other jobs and have requested to leave prior to the end of the notice period.

There are also 10 specialist trucks that are subject to a lease hire agreement that have 3 years remaining. These are surplus to requirements and not required at any other location. The monthly lease payments are £15,000 and it is unlikely the lease hire company will be able to re-hire them.

Requirement

(c) Calculate the potential liabilities which will arise from closing down the Kilmarnock branch with immediate effect. Assume that the Company will pay staff salaries in the ordinary course and there are no outstanding holiday pay entitlements.

(8 marks)

Management accounts show that the Company is currently losing £50k per month across all of its operations, against a consistent monthly turnover of £1.5 million. Current losses and cashflow are being funded by the US parent, but they have insisted that there is no support available from 1 January 2027

The Board has identified the following package of improvements:

1. Closure of the Kilmarnock branch on 31 December 2026.

2. A revised contract with the MOD Customer commencing on 1 January 2027, containing a new fuel price escalator. It is estimated that this will increase the gross margin on this work by 5% which, with no additional overheads, will result in increased net profit and cash generation of the same amount.

3. Identification of Airport work where no margin is made and increase of rates charged. This is expected to reduce turnover in this area by 10% but improve gross margin on the remaining retained turnover by 5% as a result.

4. Further rationalisation and head count reduction resulting in estimated annual reductions of £200k but with associated unsecured liabilities of £1 million crystallising as a result.

It is expected that the impact of the improvements set out above will have a direct impact on profitability and cash will be generated at the same level. This will allow a monthly payment to be made to repay creditors.

The Company's only assets are leasehold improvements and trade debtors. Due to the nature of the Company's contracts, it is envisaged that debt collection will be difficult and only £100,000 will be collectable if operations closed down without any form of continuity. Trade debtor collections will fund working capital requirements in the ongoing trading scenario.

Any change of ownership would automatically terminate the contract with the MOD Customer, resulting in it being of no realisable value.

The Company has the following liabilities at 31 October 2026:

	£'000
HMRC – VAT and PAYE	400
Trade creditors	1,000
Other unsecured lenders	250
US Parent INC	2,000

The Company is on pro-forma terms with most key suppliers and cashflow forecasts show that it will be able to continue to maintain creditors at the current level up to the end of the year.

The Board has advised that they have the shareholder's support to use all the cash generated from trading for the next 4 years to be offered to creditors. In addition, the shareholders have advised that conditionally on an agreement being reached with creditors, they will agree to waive their debt until after all other creditors have been settled in full.

Requirements

(d) Based on the anticipated financial impact of the proposed package of improvements, estimate the financial outcome of the Company's offer on each class of creditor, compared to the most likely alternative insolvency procedure.

(9 marks)

(e) In formulating a proposal to creditors, set out the key information that would be required to be presented to enable creditors to reach an informed decision on its merits, compared to the likely alternative. State your reasons for selecting the alternative insolvency process as a comparison based on the circumstances as set out.

(2 marks)

(f) Explain the practical issues that the Company may face whilst any proposal is being considered by creditors and the required approval from creditors to any proposal put forward.

(4 marks)

(Total: 40 marks)